WHAT'S AHEAD FOR THE MARKET NOW

The MAGAZINE of WALL STREET

and BUSINESS ANALYST

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at did we get for it? . . .
E $78.5 BILLION
WE SPENT IN
REIGN AID
From 1945 thru
March 1960
By NORMAN A. BAILEY

THE MAGAZINE OF WALL STREET and BUSINESS ANALYST

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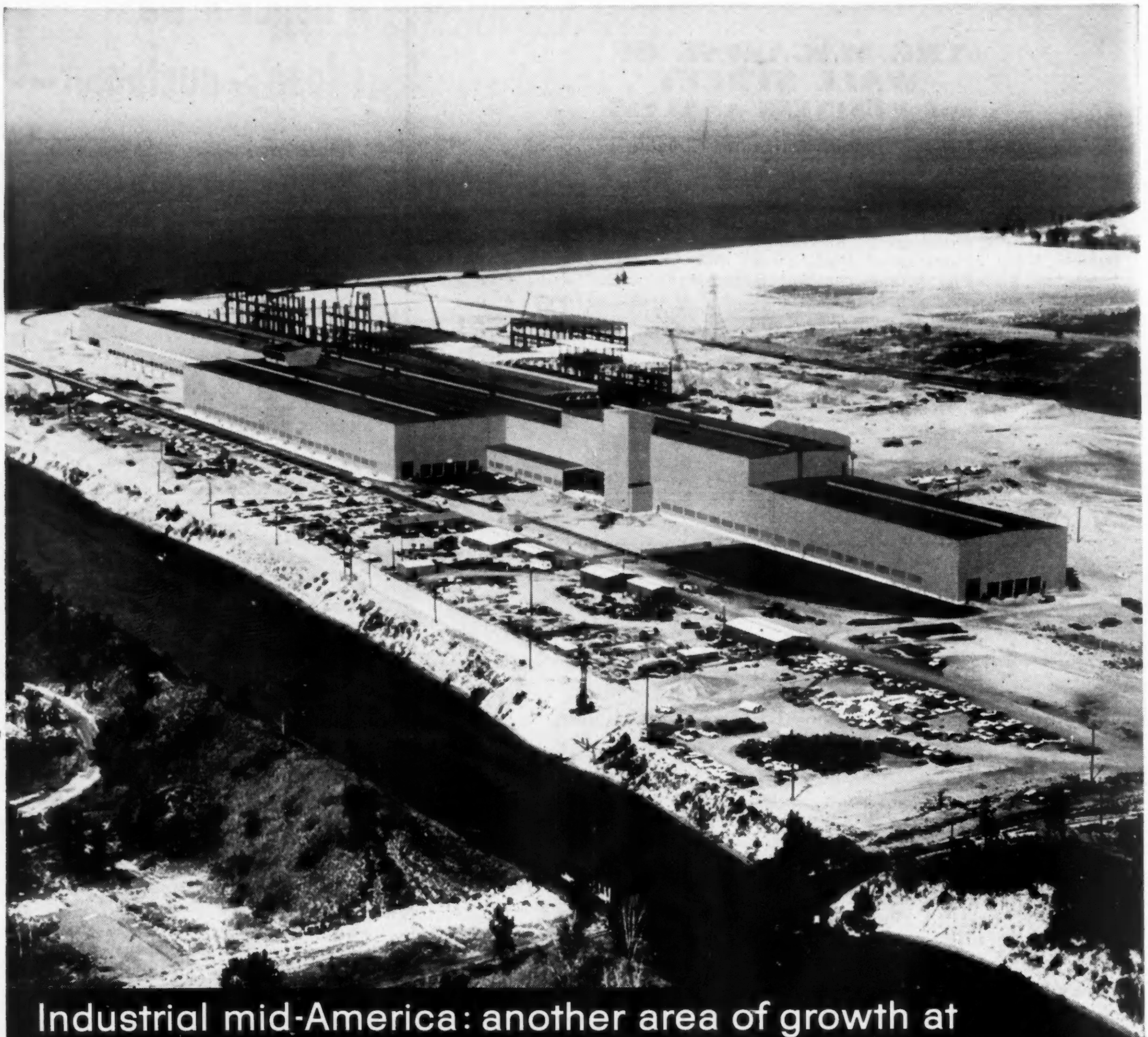
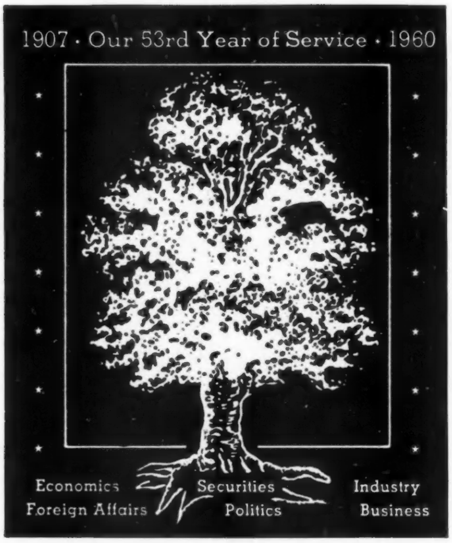

Industrial mid-America: another area of growth at

THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher*



The Trend of Events

THE DONKEY AND THE ELEPHANT . . . Now that the din and spectacular performance of the campaign has subsided, and Senator John F. Kennedy has won the election by only the barest plurality, we feel there is considerably less reason for apprehension than would have been certain if he had swept the country, as many of the professionals had forecast.

It seems most likely that President-Elect John F. Kennedy will have to adjust his viewpoint regarding many of his expressed objectives because of the opposition that is bound to come from the West and the South to his radical plans.

This was made clear as the election tallies showed up the tightness of the race, so that Mr. Kennedy did not know until the afternoon of Wednesday whether he had actually won the necessary electoral votes or not—after which the market rallied to turn a 9 point loss into nearly a 5 point gain at the close. Whether this merely expressed a sigh of relief, or an indication of inflationary thinking still remains to be seen, for deflation rather than inflation is in the air at the moment.

A complete story on the "Significance of the Election," and interesting speculation on the men most likely to be chosen for the cabinet and other posts as awards for services rendered, has been specially written for this issue by Stewart Hensley, top political-economic analyst, and will help us to evaluate the character and philosophy of the appointees.

But much will be coming to the fore from behind the scenes in the weeks ahead. Already, the claim that Kennedy would have control of Congress, a high point of campaign oratory, is proving to be a fallacy. In fact, the election truce has already started to blow up in the face of the dissension among the Democrats which has broken out in New York City between the Liberals, headed by Mrs. Roosevelt and Governor Lehman, against the machine rule of Carmine DeSapio and Michael H. Prendergast, with Mayor Wagner claiming that he, and no one else, is the titular head of the Democratic Party in New York. And rumblings of dissatisfaction are being heard from other parts of the country as to who contributed most to the victory and who should get the "political plums."

And there is another cloud on the horizon—for the possibility that JKF may lose the popular vote lends an air of uncertainty to the outcome, especially since it is reported that 1,000,000 absentee votes are still to be tallied. And, since a great proportion of these votes would be coming from Republican army and diplomatic personnel, it could change the results in states with narrow margins of victory—and even affect the final electoral votes.

Altogether, the situation is tied up with the unusual—even the forces of destiny may be taking a hand. For, when you think that Richard Nixon's answer to an advertisement in a newspaper launched him on his career as Senator, a step that finally led him to the Vice Presidency, any new stroke of for-

We call the attention to the reader to our Trend Forecaster, which appears as a regular feature of the Business Analyst. This department presents a valuable market analysis of importance to investors and business men. To keep abreast of the forces that may shape tomorrow's markets, don't miss this regular feature.

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELLORS: 1907 — *"Our 53rd Year of Service"* — 1960

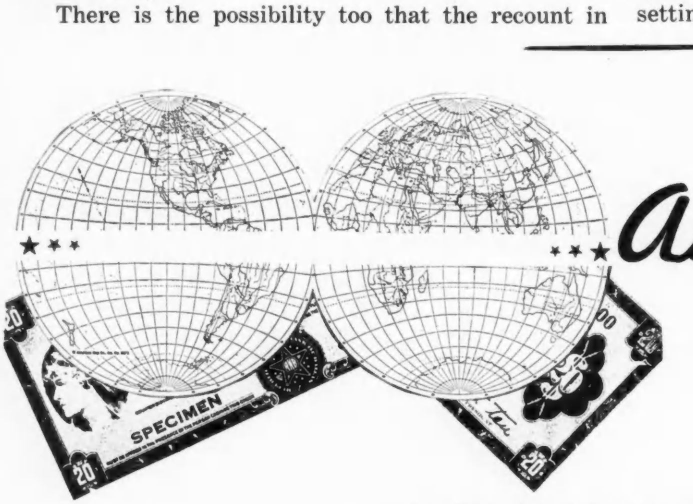
tune that might come to him would not be surprising. Besides, the fact that the new Congressional set-up seems made to order for him, causes me to keep my fingers crossed until the last vote is recorded.

But seriously, the absentee ballots in seven states could conceivably change the total electoral votes, although it appears doubtful at the moment. These states, subject to a law in which the final dates are set for counting their absentee ballots, include: California, November 14th—North Dakota, November 28th—Pennsylvania, November 18th—Rhode Island, December 5th—Washington, November 23rd (and in the case of Missouri and Nebraska the period has just expired and the results will soon be announced).

There is the possibility too that the recount in Hawaii may lead to a demand for a recount in other areas, particularly in states having large electoral votes. In fact, such a movement has already been started.

Altogether, most of us have never seen an election like this in our lifetime. Anything can happen—especially if Vice President Nixon should roll up a good-sized majority in the popular poll—for it is generally recognized that the Electoral College is out-dated and outmoded—and, under such circumstances, common sense might prevail. For in a Democracy it is the people who must decide the election, not 269 men in the Electoral College.

Or the possibility exists that President-Elect Kennedy might find a way out of the dilemma posed by his narrow margin in the popular vote, through the setting up of a coalition *(Please turn to page 26[illegible])*



As I See It!

By Jack Bame

A FREE MARKET IN THE U.S.A.? INSTEAD — WHY NOT CANCEL ARCHAIC GOLD RESERVE BACKING?

► To establish the fact that we went off gold in 1933
► Add flexibility to our monetary policy

THE First National City Bank monthly letter of November 1960, in an article reviewing the subsided but not forgotten October gold frenzy in London's gold market, dropped a "feeler" into financial circles. The widely-quoted letter dealt with two provocative problems in the following paragraphs: . . . *"It has been against U.S. policy to sell gold in free markets and to meet speculative or hoarding demands for the metal. Yet the practical fact is that the flare-up, and all the associated excitement, would not have occurred if some holder with a sizable stock had offered some tens of millions on the London market. . . . The broad question arises as to whether the United States Government should not permit the opening of a free gold market, paralleling those in European financial centers, or at least soberly reconsider whether the policy of ignoring free gold markets, adopted a quarter century ago, is appropriate and realistic."*

The first question brought up here is the implied criticism of United States official inaction concerning intervention in the London gold market when the price of gold jumped to over $40 per ounce. The opinions of many bankers here, and of many leading monetary and financial writers and experts, both in New York and Europe, especially in London and in Zurich, are very critical of the lack of action by the American monetary authorities.

They explain that with the sale of a relatively small amount of gold, its price would never have soared to such heights, and the ensuing—and perhaps lasting—increased distrust of the dollar and the growing gold losses (the U.S. stock is now almost down to $18 billion, as much as $175 million leaving in one day) would not have reached such an extent. They further argue that the new demand for gold and movement out of dollars is not just speculative, but is based upon a widespread and genuine distrust of the dollar.

Opposing views look at the problem from another angle, that of the unnecessary depletion of official reserves for the benefit of private speculators and hoarders. If the Bank of England (and the U.S. Treasury, indirectly) refuses to supply more gold in London to satisfy private demand not of a "legitimate monetary nature," it has to allow the gold price to fluctuate according to the intensity of demand in relation to supply, under the operations of a free gold market. But the latter, in the sense that it exists in London, was not organized, and reopened in 1954 for the purpose of catering to speculative interests. Thus, the two points of view are in

sharp contrast and only time will tell which side was right.

However, it does seem evident that the London demand has remained steady. The price is hovering around the $36 per ounce level, and it is likely that the Bank of England and the U.S. are now supplying the market with sufficient quantities of gold to hold the price at its present quotation.

This brings us to the second point—*the possibility of a New York free gold market* and/or the U.S. policy of "ignoring" free gold markets.

The nature of free gold markets varies rather widely according to the individual center involved, as to purpose, national and popular factors, location and central bank relations to gold trading.

The Hongkong or Paris markets, for instance, are far different from that of London. The latter's facilities are available only for non-residents of the Sterling area, while residents in many other gold centers, such as Paris, are permitted to deal in gold in practically the same manner as any other commodity.

The market in England was originally developed not to provide facilities for a gold-minded populace but to maintain a relative international stability of the currency in relation to gold or the "gold points." London's present gold market does not seek the speculative trade and the Bank of England is reluctant to meet such demand. It rather views the nature of its gold trading facilities as an activity supplemental to other central bank operations and with the aim of keeping price movements within narrow ranges. From 1954 until the October gold rush, these limits had been $34.92 and $35.16. When the price rocketed sharply in October, the London market actually temporarily ceased to serve its true purpose, as official central banks and treasuries were not buyers at the unusually high prices, since gold could be purchased from the U.S. at $35.0875. Central banks were likewise not engaging in gold market arbitraging for profit purposes.

Only the U.S. is under the obligation to buy and sell gold to foreign governments, central banks, official agencies and international institutions at a fixed price, while other leading free world nations buy and sell gold to prevent excessive fluctuations in the international values of their monetary units.

Obviously, the opening of a so-called free gold market here would serve no really useful purpose.

The continuing of the gold outflow, now of worrisome proportions, will not be solved by anything less than sizable corrections in our balance of payments deficit, effected through cooperation between the U.S. and our allies.

Our Archaic Gold Reserve Requirement

The gold exodus also spotlights the archaic nature of our 25% reserve requirement against banknotes in circulation and member bank deposits at the Federal Reserve, a practice which has gradually disappeared from the legislation books in many free countries. This percentage can be reduced and eventually abolished, in addition to the prior and extensive possibilities of reducing bank reserve requirements.

Therefore, it seems that our present legal obligation to provide gold to foreign central banks and official organizations, and not to private buyers, can be sustained for some time by cutting these domestic reserve ratios if necessary, thus gaining needed time to correct imbalances in our payments framework. Our monetary policy would most probably be directed more intelligently and to better ends by official bodies than if left to the actions of individual traders, who do not often have altruistic aims.

In any event, something will have to be done, either to postpone any drastic immediate and harmful actions which could be provoked by a continued large-scale gold outflow and/or to get down to basic remedial measures to reduce our payments imbalances.

It seems odd that many of the proponents of free gold markets subsequently argue tor the greatest degree of government interventions in them, to react to and offset sharp changes in private demand, but shy away from any possible positive administrative changes in existing gold or reserve requirement regulation.

Let's not be blind to change, but let's not overlook the chances for adjustments within our present monetary framework before proceeding to more fundamental revisions. Concerning the latter, the best possibilities are not, I believe, crystallized in the form of a free gold market here, but rather in a direction away from an emphasis on gold as the basis for controlling monetary policies and activities. END

The New (Old) Frontier

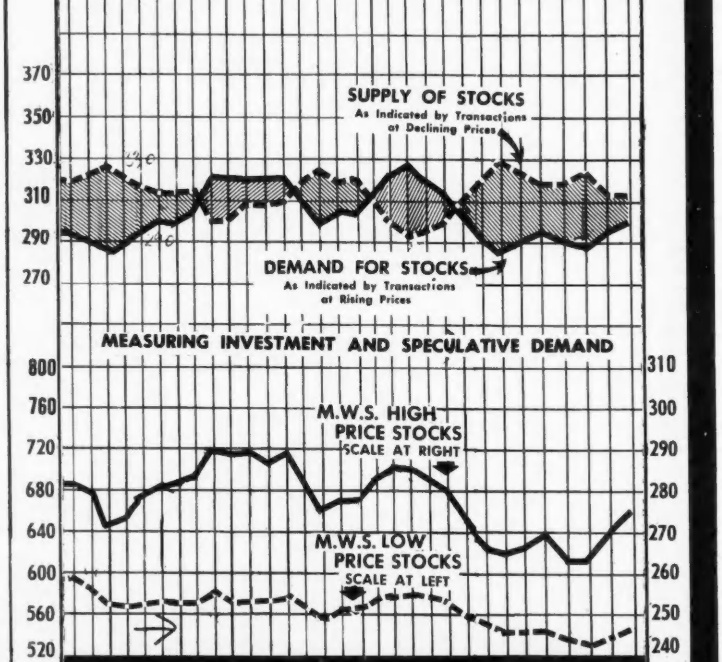
What's Ahead For The Market Now

Following a brief dip on Wednesday, the day after Election, the market upswing from the late-October low was extended, mainly on short covering, as traders sought to reappraise the significance of the Kennedy victory. It is too early to determine whether the inflationary aspects of easing money and the expected rise in Federal spending will be of dominant influence toward higher security prices, for the business recession and shrinkage in corporate profits cannot be ignored. While some further trading-range recovery is possible, basis for broad advance is not apparent. A realistic, carefully selective investment policy remains advisable.

By A. T. MILLER

SELLING of stocks after the Kennedy victory was not heavy and was mostly concentrated in a two-hour period during the first post-election trading day. It was followed by a sharp rebound, taking the industrial average to the best level since mid-September, with gains scaled down moderately in last week's final session. Performance after further and cooler second thought will be more indicative of the market's near-term potentials.

Reasons for the spurt—nearly 27 points for the average between poorest November 9 and best November 10 levels—are mixed and, as usual at a time of excitement, debatable. Relief from election uncertainty was one; the prospect of rising Government spending and some revival of Wall Street inflation talk was another. Contrasting with the latter, many people saw encouragement in the narrowness of the Kennedy victory, regarding it as falling far short of a public mandate for radical "New Frontier" policies.



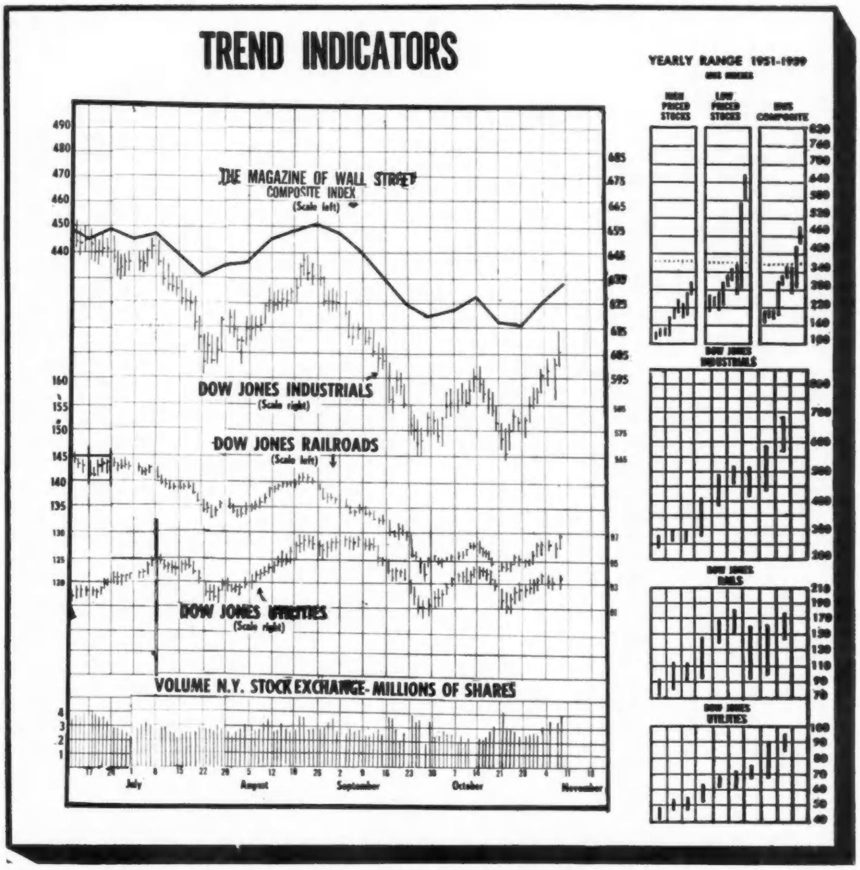
The Present Position

Whatever the reasons, the fact is that the market began this upswing well before the election, from an October 25 low, and that about three-quarter's of the industrial average's net gain to date of 42.56 points from that low had been seen prior to the election.

So far the average has merely widened its recent 5% pre-election range to about 7.5%. Rails remain far down in their depressed range, only some 5% above the 1959-1960 low recorded late in September. Utilities stand appreciably under the post-war top seen on September 6, also a little under their mid-October rally level.

It is encouraging that industrials have decisively penetrated supposed resistance around the 600 level and established a presumptive "intermediate" recovery trend by rising materially above the October 14 minor-rally top. There is basis for increased hope—but, of course, no certainty—that the previous low will hold on any later tests. Meanwhile, it will take more zig-zag probing to suggest anything better than

a trading-range recovery. The average is still about 33 points under the intermediate recovery high reached in August and thus no great distance above the mid-way mark of the range subsequently marked out.



Implications Of Narrow Election

Political prognostication is not the function of this article. Suffice it to note briefly, because of the bearing on investment and business sentiment, that election by a popular-vote margin of less than three-tenths of 1% as indicated at this writing, is hardly calculated to make Kennedy "a second Roosevelt" able to get fast action on a bundle of "must" legislation from a rubber-stamp Congress.

It is significant that middle-road Lyndon Johnson, vice-president-elect, emerged with increased political power, and that the Republicans gained over 20 seats in the House. Apparently the coalition of conservative southern Democrats and northern Republicans will continue able to block or modify controversial legislation. Apparently the election has not enhanced the political or economic power of the national labor union bosses. Finally, it seems assured that the Federal Reserve Board's independence of the White House will be maintained.

As a result, the business community is neither elated nor disturbed. It will get on with "business as usual", without change in previous thinking on commitments for new plant and equipment or policy with respect to inventories.

It is problematical how rapidly and how much Government spending will rise under Kennedy, although a spender in the White House is less likely to meet Congressional opposition on money bills, especially with a recession in progress, than on other matters of policy. In any event, time will be required to reverse the recession, which most observers expect will continue at least through the 1961 first half.

The current news is not good. Unemployment is rising and figures to reach disturbing proportions during the approaching winter. Output of paperboard, a good indicator of the immediate direction of business, is at a four-month low. While retail automobile sales have made a satisfactory autumn showing, dealers' car stocks are too high and the industry is cutting back production. Steel activity is at a new low for the year (excluding a couple of earlier holiday weeks).

With unsold finished goods now an increasing portion of inventories, business buying remains on a hand-to-mouth basis so far as possible. Total retail trade continues in a mild downtrend from last Spring's peak level. Regardless of easing credit, medium-term potentials for housing activity are restricted by reduced demand and increased supply. In the case of rental dwellings the third-quarter vacancy rate was a record 7.6%. While public building will rise, private commercial and industrial building will follow capital outlays downward.

New Bull Market?

We note some opinion, partly based on 1957-1958 experience, that this may be a new bull market. It is true that the market's October, 1957, low came about six months in advance of the low point in business. But there are differences now. Stocks are more adequately, if not, excessively, priced. Valuation of the industrial average at the October low was around 16.5 times likely 1960 earnings and is now around 18 times, compared with 12 at the 1957 low and 14.5 at the July, 1957, triple top. There are similar differences in the ratio of stock yields to bond yields.

Perhaps more important, it seems questionable that the next business recovery will be a boom—especially for profits. There is too much capacity, too much competition, too much saturation of consumer demand for durable goods. The alternative to major advance or fall could be a broad trading-range market for some time, requiring special emphasis on selectivity.—**Monday, November 14.**

SIGNIFICANCE of the ELECTION

By STEWART HENSLEY

- **Political debts the President-Elect will have to consider in making appointments — with speculation on those who will make up his cabinet and other important posts**
- **Face-to-face with realities and the sobering experience of wrestling with the budget — will President Kennedy modify the campaign promises of Candidate Kennedy?**
- **What of his pledges on foreign affairs — on Castro — and Khrushchev, who is already prodding for a Summit Meeting before Kennedy gets his bearings?**
- **A round-up of the campaign and what it told us about Kennedy's character and qualifications — and what we can expect**

JOHN F. KENNEDY will enter the White House next January a much-mortgaged young man—in the political sense. Some of the creditors are going to make strange bedfellows.

Of course, every President is mortgaged to some extent by the commitments he must make to various pressure groups during the campaign. Dwight Eisenhower was one of the few without a heavy burden of political debts. His tremendous personal popularity enabled him to win without making specific commitments to opposing factions.

Kennedy's obligations to various supporters are all the heavier because of the razor thin margin by which he won the office. Any one of the groups which supported him can rightly claim—and undoubtedly will—that without its support he would not have won. This makes the political debts more uncomfortable.

The possible effect of the religious issue in the campaign now can be disregarded so far as concerns the payment of obligations. Any debts stemming from that issue are uncollectible anyway.

Basically, Kennedy owes his election primarily to the big cities and the South. Lyndon Johnson's success in holding most of the South in line and delivering his own state of Texas to the Kennedy column was a big factor when the chips were down.

It will be interesting to see how Kennedy handles the problems posed by this situation. How far can he go in disciplining the South to please organized

labor, the ADA, and the negroes of the North and West. All of these were major factors in his victory.

The new President must carry out his promises of "liberal" action on civil rights, medical care for the aged, federal aid to education and the like. He must convert into a legislative program these and other elements of the Democratic platform which are distasteful—to put it mildly—to many of the Southerners who voted for him.

Can he do this without alienating the South and re-creating in Congress the Republican-Southern Democrat coalition which has proved so troublesome to the dominant liberal wing of the Democratic Party?

If he can, it probably will be through the skill and political acumen of Johnson. If he does not succeed in holding the Southerners, he is going to have to find some compensating support elsewhere before 1964, when he is sure to bid for re-election.

If Kennedy finds Southern influence on the House Rules Committee a roadblock to his legislative program—as he may—his only course will be to try to curb its powers or secure a change in its personnel. This will mean war with the Southern element.

President Elect John F. Kennedy and his running-mate Lyndon B. Johnson.

The split personality which afflicts the Democratic Party on many issues is one factor in a general situation which may force Kennedy to be a somewhat less "liberal" President than the campaign might have indicated.

The moderating influence is wider — it extends beyond the Democratic Party. Kennedy's extremely narrow margin of victory certainly gives him no mandate under which he can assume license to sweep ahead on drastic programs without considering the views of the opposition. As many Americans voted AGAINST him as FOR him. A wise President will take this into account in formulating and pushing domestic and foreign programs.

President Kennedy vs. Candidate Kennedy

Kennedy is a vigorous and determined man, convinced that he has the answers to some of the problems besetting his country. His regime—particularly in the early days—may produce some dramatic new efforts to make American policy more effective at home and abroad. He may decide to risk some elements of his support if he believes he can achieve objectives which will redound to his general credit.

► However, on balance, the factors which must be considered indicate that President Kennedy will be somewhat more conservative than Candidate Kennedy.

► **Wrestling with the Budget is a sobering experience for any President. The massive document becomes a personal responsibility instead of an impersonal government compilation of financial hopes and fears.**

► **Kennedy cannot renege on expensive promises to secure the enactment of social measures. He has to act immediately to aid depressed areas—a major issue in his campaign. He is committed to higher defense expenditures.**

► **Candidate Kennedy said extra costs of his program could be met by general stimulation of the economy with a resultant increase in the volume of revenue produced by taxes—with no increase in tax rates.**

► **When President Kennedy comes to grip with this problem, he will have to deal more specifically with what it takes to increase production and raise the general level of economic activity.**

He is apt to find—and he probably knows this—that this can be accomplished only if the business and financial communities get some incentives. The economy of the country is at the mercy of factors which cannot be appeased by anything Kennedy has suggested yet.

Unless there is some improvement in business conditions by mid-January, Kennedy must take swift action to spur economic activity.

Immediate Action the Essential Ingredient

There has been considerable speculation that the early days of the Kennedy administration may resemble the first 100 days of Franklin D. Roosevelt in terms of action and excitement. The aggressive nature of the new Chief Executive lends some support to such speculation. He has spoken himself of the necessity of hammering out dynamic new policies while, at the same time, trying to deal with the snarls left by old problems.

● He will have the advantage of working with a Congress in which his party controls both Houses by strong majorities.

● But the complexity of the foreign and domestic problems with which he must deal will probably tend to hold down the spectacular approach.

His Selections—Kennedy's early announcement that he intends to keep Allen Dulles as Director of the Central Intelligence Agency and J. Edgar Hoover as head of the Federal Bureau of Investigation made it clear that he has no intention of kicking over any sacred cows just for the sheer political exhuberance of it.

● **Kennedy's selection of former Harvard Law School dean James M. Landis to undertake a prompt study of government regulatory agencies reflected the businesslike view that these bureaus are going to play an ever more important role as the fields they supervise become more intricate.** Kennedy said he wants Landis to determine how the agencies can

function more efficiently.

This move appeared, on its face, to be one to secure more efficient regulation rather than an extension of government control.

The Changeover

The speed with which President Eisenhower offered to make arrangements to ease the transition from his to Kennedy's administration and the alacrity with which the latter accepted the offer showed that both men realized the peril there might be in any hiatus at this time.

Kennedy's selection of Clark Clifford to work out transition liaison looks like a good move. The former aide to Harry Truman has vast knowledge of the actual machinery of the White House and should be able to set up the operation with minimum fumbling.

Speculation concerning *Kennedy's cabinet appointments* usually begins with guessing about the new Secretary of State. Among those mentioned prominently are former Ambassador to India, Chester Bowles, who has served as a foreign affairs adviser to Kennedy, and Adlai Stevenson, who also has performed some work of that nature. Former Ambassador to France and Germany David Bruce, a Democrat and career foreign service officer, is prominently mentioned, as are two senators, William Fulbright of Arkansas and Mike Mansfield of Montana.

Stevenson's claim for kindness at the hands of Kennedy has become stronger since the election results disclosed that Stevenson's supporters heeded his pleas to support Kennedy. But most politicians rule Stevenson out as Secretary of State because he fought Kennedy down to the wire in the nominating convention. The assumption in Washington is that Stevenson will receive a prize ambassadorship, probably Ambassador to the United Nations. There he could utilize his popularity with the Asians and Africans who are playing an ever larger role in the World organization's deliberations.

Bowles, who has been conferring privately with Secretary of State Christian A. Herter in recent weeks, is considered the front runner for the post. But some wise politicians believe that Kennedy's final choice may be someone whose name has not even entered the speculation.

There is a strong feeling that the new President will want to keep very firm control on his foreign policy and may select as Secretary of State someone who is not already identified with specific schools of thought on international affairs—a good operational chief for the State Department rather than a "thinker."

Among those being mentioned as possible choices for *Secretary of the Treasury* are Jesse W. Tapp, Chairman of the Bank of America in San Francisco; and George W. Mitchell, vice president of the Federal Reserve Bank in Chicago.

There have been recurrent rumors that Kennedy might select a Republican, Undersecretary of State Douglas Dillon, as Treasury Secretary. Kennedy is known to have high regard for Dillon's capabilities.

However, most politicians think it would be most difficult for Kennedy to name to a top cabinet post a Republican who contributed heavily to Vice President Richard M. Nixon's campaign in the belief he would be Secretary of State if the Republicans won.

Speculation as to Kennedy's possible choice for *Defense Secretary* revolves around several top Democrats with previous experience in this field. They are: Thomas K. Finletter, former Air Force Secretary; Dan Kimball, former Navy Secretary; Frank Pace, former Air Force Secretary; and Missouri Senator Stuart Symington, another former Air Force Secretary.

Gov. Luther Hodges of North Carolina is considered a possibility for *Secretary of Commerce.* He headed the businessmen's committee for Kennedy during the campaign.

G. Mennen Williams, outgoing governor of Michigan, is believed to be a possible Kennedy choice for *Secretary of Health, Education and Welfare.*

Some politicians think Gov. Abe Ribicoff of Connecticut will get the *Attorney General's* post.

Three Midwest governors are mentioned in talk about the next *Secretary of Agriculture.* They are Herschel Loveless of Iowa, Orville Freeman of Minnesota and Gaylord Nelson of Wisconsin.

Speculation on the next *Secretary of Labor* ranges from a political figure such as Mayor Robert Wagner of New York City to Harvard Law Professor Archibald Cox. Arthur J. Goldberg, special counsel for AFL-CIO, is considered a possibility.

Gov. Stephen L. R. McNichols of Colorado is in the running for the post of Secretary of Interior.

A Look at the Likely Foreign Policy

In the field of foreign policy, Kennedy's first problem involves translating the generalized theories of his campaign into specific plans to deal with individual situations.

He made much of the inability of the Eisenhower Administration to effectively hold back the Communist tide of economic and ideological penetration in Africa and Latin America. But he offered no specific cures.

His approach was to promise that the United States would identify itself more closely with the aspirations of the people of these areas but he did not say how he proposed to do this—aside from some references to the need for more propaganda broadcasts in Spanish.

When asked about the problem of Cuban *Premier Fidel Castro,* Kennedy's response was that the United States must conduct itself in the rest of Latin America in such a manner as to prevent the spread of "Castroism" elsewhere in the Hemisphere. Beginning Jan. 20 he will have to deal specifically with the day-to-day provocations from Cuba.

Meeting Russian Pressures

Soviet Premier Nikita Khrushchev has made it clear that he is not going to give the new administration any time to get well set before he unleashes a new diplomatic offensive against the West on Berlin and Germany. He has told British and West German leaders that the allies must quit red-encircled West Berlin by May 1, leaving it to the tender mercies of the Communists. And he has said that he will renew early in the year his demands for separate peace treaties with the two parts of divided Germany—peace pacts on Communist terms.

In his cable to Kennedy congratulating him on his election Khrushchev began angling for a Summit Conference. Kennedy has said that he will not go to one unless advance preparation at lower levels insures its success in advance. Eisenhower said the same thing at one time *(Please turn to page 262)*

PART TWO

A SOUND APPROACH TO 1960 THIRD QUARTER REPORTS

by WARD GATES

CORPORATE profits declined moderately in the third quarter from the levels attained three months earlier, but on the aggregate they were above the same period of a year ago. As always, however, the total picture is not nearly as interesting or significant as the varying performances among industries and the divergent trends within each group.

Variations among different industries, and the reasons for the performances of special groups, provide important keys to an understanding of the picture. Total earnings, for example, are higher than a year ago, but if the steel and metal industries are removed from the calculation because of their unrepresentative comparisons with a strike-bound period a year ago, the pattern of earnings changes radically.

In fact, the only improvements in earnings that can be laid directly to better business was among the utilities, grocery chains, food producers, finance companies and the theatre operators. All other industries that showed improvement did so for special reasons.

The betterment in steel company earnings, as well as for metal and mining companies, has already been mentioned and requires no deep analysis. In simplest terms, there were practically no earnings in these groups last year because of strike conditions. The oil industry, still beset with many difficulties, has been reporting better results, but in the main the cause can be traced to smaller exploration and capital expenses rather than to improvements in business conditions. And finally, although total earnings are up for the office equipment makers, almost the entire improvement can be traced to the earnings of two or three companies in the field. All the others failed to keep up with a year ago.

As was pointed out in the first part of this report, however, the weakening earnings picture cannot be offered as proof that the nation is headed into a depression, or that American industry has lost its dynamism.

Reasons For Decline in Earnings

For one thing, the profit margin squeeze is not a new development. We have been calling attention to the constant attrition of profit margins for several years now. But higher reported earnings

have, until now, disguised the trend for most uninformed investors. Therefore, it is only now, when earnings have declined modestly, that the profit margin squeeze is being noticed by most observers and receiving its first recognition.

In actual fact, however, profit margins have been on the downgrade since 1955, although a brief upswing lasted for two quarters at the end of the 1957-1958 recession. The reasons for the squeeze are varied, but not all are necessarily bad.

First, profits are being assaulted by the ever-increasing cost of labor at a time when adequate, or even excess capacity, in many industries is keeping a lid on prices.

Second, industry misjudged its capacity needs in the short run, so that over-capacity threatens to exist for a longer period of time than had been anticipated. The result is that buyers are under no urgency to rebuild their stocks and in the process to help stabilize the price structure.

And lastly—and possibly most important—is the fact that much of the profit margin squeeze is artificial, because one of the most rapidly increasing cost items is depreciation charged off against the newly created facilities.

The significance of this cannot be overstated. What has happened is that industry's binge of capital spending, combined with the newer methods of accelerating depreciation charges, has created an enormous expense item on corporate income statements that reduces reported profits but nevertheless allows enormous cash earnings to flow into the company coffers. In effect, corporate profits today are being understood as never before—and this process will continue until the capital spending boom drops to much lower levels.

Large depreciation charges, while they exist, represents another rigid cost item—and it is rigid costs that account for the wide swings in corporate earnings despite relatively minor fluctuations in actual business conditions. And so far, this has been only a minor dip in business activity.

Proof of that can be seen in the near-record level of consumer spending, which in the last analysis is the most important economic indicator. For the goods people buy is the end result of all business activity in a free economy.

Analyzing Third Quarter Reports

Within this framework, third quarter earnings can be analyzed in perspective. For once we realize the overall economic forces that are affecting *all* corporate earnings, the individual differences become more significant.

Auto industry provides a good starting point, first because of its enormous importance, and second, because it is the best indicator of the reverberating effects of last year's steel strike. **General Motors,** for example reported a radical 34% drop in earnings in the third quarter despite only a 6% drop in sales. The picture is not, however, as dark as it looks.

A year ago GM turned out cars as rapidly as it could in the third quarter, hoping to build up year-end inventories before steel inventories ran dry. As a result earnings that should have appeared in the fourth quarter were moved forward into the third. This year, exactly the opposite will happen. With steel supplies back to normal, and a return to regular scheduling, GM's fourth quarter production will run well ahead of last year. October, as a matter of fact, has already witnessed a 30% increase in car output over a year ago.

Thus, GM's earnings were artificially high in last year's third quarter, making this year's look abnormally low. Much of the difference will wash out in a comparison of the second half in both years.

Nevertheless, it must be pointed out that GM's profit margins are lower than a year ago for other reasons, as well. In the main, this is because of the heavy concentration on compact cars this year which bring lower prices but a less than proportionate reduction in costs. In this respect, GM is in the same boat as all the other car makers except American Motors.

Chrysler, for example, is also heavily engaged in compacts. The results in profit margins do not show in the third quarter, however, because Chrysler operated at a loss in last year's period due to its own labor difficulties, in addition to the steel strike. This year, operations yielded a small, 15¢ per share profit, but even that is no indication of how well the company is doing.

It is essential to remember that the third quarter lacks much significance all through the auto industry, because it is model change-over time—a period of normal slowdown and even shutdown for several weeks, while tools, dies and other plant facilities are changed. An accurate picture of the entire auto industry cannot be visualized until year-end statements begin to appear sometime in February, 1961. For the moment, however, we can take heart from the high level of sales the industry is currently enjoying.

If the auto industry's picture is distorted by last year's steel strike, the steel industry figures are simplified. Steel earnings must be better, because operation at even 50% of capacity reaps more rewards than a complete shutdown, as was the case a year ago.

What is most significant about the steel industry, however, is the fact that almost all important producers were in the black for the quarter, a very creditable accomplishment at the low operating rate mentioned.

U.S. Steel, in fact, averaged only 47% of capacity during the period; yet it earned enough to cover its 75¢ dividend requirements. Comparison with last years deficit is meaningless. What is important is that despite a drop in the operating rate from near 100% in the first quarter to under 50% in the third, Steel was able to maintain a coverage of its dividends in *each quarter.*

One of the reasons for the low market appraisal for steel companies in the past was the volatility of their dividend coverage. Obviously, that situation is changing.

National Steel covered its 75¢ dividend by an even wider margin than did U.S. Steel. Net earnings came to $1.06 per share against 36¢ a year ago and $1.27 in the second quarter. The company was only partially affected by the steel strike last year and was one of the few to operate in the black at that time. This time, its better than average performance can

Quarterly Income Comparison of Industrial Companies

	3rd Quarter 1960			2nd Quarter 1960			1st Quarter 1960			3rd Quarter 1959		
	Net Sales (Mil.)	Net Profit Margin	Net Per Share	Net Sales (Mil.)	Net Profit Margin	Net Per Share	Net Sales (Mil.)	Net Profit Margin	Net Per Share	Net Sales (Mil.)	Net Profit Margin	Net Per Share
Air Reduction	$50.5	7.4%	$ .95	$51.6	7.3%	$ .97	$53.2	7.7%	$1.06	$ 49.2	7.3%	$ .93
Allis-Chalmers Mfg.	126.7	.9	.13	156.3	3.2	.55	126.4	2.2	.28	166.6	6.0	.13
Aluminum Co. of Amer.	214.5	4.0	.37	221.8	4.0	.40	221.1	5.7	.56	281.1	5.7	.56
American Can	320.9	4.4	.78	271.1	4.0	.66	219.2	2.8	.35	362.7	5.1	1.14
American Cyanamid	136.8	6.2	.40	145.4	8.1	.56	159.7	10.3	.78	144.5	8.8	.61
American Steel Foundry	28.1	6.6	.64	33.1	7.1	.81	31.5	6.4	.69	29.8	7.4	.76
American Tobacco	322.6	5.2	1.24	308.4	5.1	1.15	275.0	4.8	.98	303.6	5.9	1.31
American Viscose	48.4	1.0	.11	53.3	3.2	.36	54.8	3.6	.41	58.5	5.7	.66
Babcock & Wilcox	70.4	5.7	.66	76.5	5.5	.69	78.4	6.3	.81	68.6	3.7	.41
Bethlehem Steel	502.9	2.4	.24	569.0	5.2	.62	655.8	7.9	1.10	198.6	—	d.89
Borden Co.	241.7	3.0	.74	241.4	3.2	.80	230.0	2.3	.55	241.6	2.9	.72
Brunswick Corp.	150.0	12.7	2.29	77.0	8.3	.78	50.8	4.5	.28	108.5	11.5	1.72
Celanese Corp. of Amer.	64.5	7.0	.46	70.7	7.3	.55	66.7	7.2	.50	65.7	8.1	.57
Chrysler Corp.	634.1	.2	.15	825.7	1.5	1.45	925.8	1.1	1.25	432.9	d7.9	—
Clark Equipment	47.1	3.1	.31	55.1	3.5	.40	52.8	3.9	.44	56.4	6.4	.77
Colgate Palmolive	155.5	3.9	.73	151.7	3.6	.66	144.6	3.0	.50	148.2	4.7	.86
Continental Can	334.2	3.1	.84	289.3	3.2	.75	240.9	1.5	.30	364.0	4.7	1.40
Corn Products	177.6	5.2	.85	176.1	5.4	.88	165.3	5.2	.80	178.5	4.2	.69
Crown Zellerbach	143.0	7.2	.73	143.5	7.7	.78	132.2	6.9	.64	135.6	7.1	.68
Cutler Hammer	28.2	4.2	.78	29.4	4.5	.87	25.9	6.2	1.04	28.8	6.1	1.15
Diamond Alkali	35.5	8.0	.98	38.5	9.1	1.20	38.5	9.1	1.20	36.5	8.5	1.08
Eaton Mfg.	53.0	2.1	.23	75.3	3.4	.54	79.9	5.9	.99	67.5	5.3	.75
General American Transport	60.7	7.5	.82	62.3	8.3	.94	62.3	8.1	.92	49.1	8.5	.77
General Motors	2,201.0	4.4	.30	3,450.8	8.3	1.01	3,657.9	8.8	1.14	2,345.4	5.7	.47
Georgia - Pacific Corp	62.0	5.7	.61	56.2	8.6	.87	46.1	7.7	.63	50.7	8.5	.81
Goodrich (B. F.)	183.7	3.2	.66	203.0	4.4	1.01	200.7	4.0	1.01	195.1	4.7	1.02
Gulf Oil	N.A.	N.A.	.82	N.A.	N.A.	.74	N.A.	N.A.	.82	N.A.	N.A.	.77
Johns-Manville	99.6	8.5	.90	99.5	8.9	1.04	74.8	6.2	.55	101.9	8.2	1.01
Johnson & Johnson	78.1	6.4	.85	74.9	5.0	.63	79.2	5.3	.71	79.4	6.3	.85
Kennecott Copper	131.3	15.4	1.82	132.2	18.5	2.21	117.3	15.5	1.65	10.6	15.5	.99
Lehigh Portland Cement	30.3	10.5	.72	28.4	11.2	.76	14.0	4.5	.15	33.4	12.3	.96
Link Belt Co.	36.2	3.3	.63	39.8	3.6	.78	38.1	3.7	.75	37.9	3.1	.62
Lorillard (P.)	122.4	5.6	1.03	126.9	5.5	1.04	113.6	4.1	.84	132.5	5.9	1.03
Merck & Co.	55.7	12.6	.65	55.6	13.2	.68	55.7	13.3	.69	56.1	14.4	.75
National Biscuit	110.6	5.9	.95	111.3	6.1	1.01	111.7	6.0	.99	107.1	5.5	.86
National Cash Reg.	110.0	4.1	.58	108.3	3.8	.52	97.4	3.5	.43	104.2	4.2	.50
National Lead	131.3	9.3	1.00	137.3	9.6	1.08	132.5	9.1	.99	131.9	9.2	1.00
National Steel	163.4	4.9	1.06	174.4	5.4	1.27	219.8	8.0	2.35	128.4	2.2	.36
Olin Mathieson Chem.	179.4	4.3	.58	185.1	5.4	.76	163.1	5.2	.64	182.4	5.0	.69
Owens-Corning Fiberglas	55.5	6.6	.55	55.5	7.0	.58	51.8	7.7	.60	55.2	7.7	.64
Owens Illinois Glass	151.5	5.7	1.08	148.6	6.8	1.28	130.5	6.0	.96	159.4	7.9	1.66
Pfizer (Chas.)	201.6	9.3	1.13	68.1	8.5	.35	68.7	10.3	.43	185.6	9.2	1.05
Philip Morris	128.7	4.4	1.48	130.0	4.3	1.47	118.4	3.7	1.13	129.3	4.1	1.38
Phillips Petroleum	299.2	9.0	.79	301.6	8.6	.76	301.4	8.5	.75	284.4	8.5	.70
Pittsburgh Plate Glass	158.2	7.9	1.23	165.7	7.1	1.34	158.2	7.6	1.20	166.3	8.4	1.39
Procter & Gamble	N.A.	N.A.	1.57	N.A.	N.A.	1.01	N.A.	N.A.	1.15	N.A.	N.A.	1.42
Pullman	96.9	2.9	.63	115.2	3.1	.78	110.8	3.0	.72	105.6	2.6	.63
Schering Corp.	22.4	14.2	.77	20.4	6.1	.29	22.2	12.1	.65	23.9	17.2	1.01
Smith Kline & French Labor.	36.2	17.4	.43	37.1	16.9	.43	35.7	16.4	.40	34.7	20.0	.48
Standard Brands	129.6	3.2	.62	131.9	3.0	.59	135.2	3.2	.64	130.5	2.8	.54
Standard Oil of New Jersey	2,275.0	8.1	.85	2,105.0	6.8	.67	2,212.0	7.6	.79	2,240.0	7.2	.75
Stauffer Chemical	56.7	8.6	.53	61.1	9.4	.63	53.2	9.4	.55	59.3	9.4	.61
Texaco	N.A.	N.A.	1.68	N.A.	N.A.	1.32	N.A.	N.A.	1.61	N.A.	N.A.	1.63
Texas Instruments	54.0	6.6	.91	59.8	6.6	1.01	56.2	6.9	.99	46.7	7.6	.89
Thompson Ramo Wooldridge	94.8	1.9	.55	107.5	2.4	.82	111.6	2.1	.73	101.7	1.7	.54
U. S. Gypsum	76.0	14.0	1.31	72.0	14.4	1.28	61.0	13.4	1.00	87.1	15.2	1.64
U. S. Rubber	229.4	3.0	.99	256.0	3.3	1.26	254.1	3.9	1.51	234.3	3.2	1.09
U. S. Steel	785.2	6.6	.85	1,002.3	7.1	1.38	1,187.5	9.5	1.97	368.3	8.4	—

d—Deficit. N.A.—Not available.

be traced to heavy production of automotive steels at a time when auto production ran at high levels.

Other major steel companies, while operating in the black, were not as fortunate as U.S. and National Steel. **Bethlehem Steel** reported earnings of 24¢ a share for the quarter, far below the 60¢ dividend requirement. The dividend was declared, however, and the company expressed optimism about covering its requirements for the full year.

Third quarter earnings were also adversely affected by larger than usual maintenance costs, as well as a strike in the shipbuilding industry. Since Bethlehem is both a major shipbuilder and an important supplier of steel to the industry, the impact was particularly hard.

Nevertheless, a series of misfortunes of this kind have been taking a constant toll on Bethlehem's earnings for some time now, reducing dividend coverage to the barest minimum. *Consequently, payments must be considered in jeopardy unless a strong change for the better occurs in the near future.*

Profits Flow From Oil

The oil industry is another that did better in the third quarter than most groups. **Standard Oil of N.J.** earned 85¢ per share compared with 75¢ in the same period a year ago, and raised its nine months results to $2.31 from $2.22. Sales were moderately higher around the world, although the full improvement was in products rather than crude. Hence, the suspicion still exists that most of the increase in earnings for the nine months stems from lower capital expenditures, and especially from reduced exploration outlays. As a matter of fact the decline on these items to $643 million from $658 million a year ago accounts for most of the dollar improvement in nine months net income.

Nevertheless, it is also true that the troubles besetting the industry have led to cost reduction actions which have improved profit margins. **Texaco,** a notably efficient producer among the international companies, offers further proof of this. The company admits that prices were weak, except for a brief period during the summer, but attributes its better earnings to stringent control of costs. Earnings were $1.68 per share compared wih $1.63 last year and only $1.32 in the second quarter of 1960. Moreover, Texaco's increased efficiency is demonstrated by the fact that earnings rose despite higher exploration and capital outlays in the first nine months.

The best commentary on Texaco's efficiency, of course, is that the stock did not participate in the sharp decline that hit most of the group. Morever, it has managed to improve its earnings with greater consistency than any of the other major companies.

Among the more prominent domestic companies, **Phillips Petroleum** also scored a modest advance to 79¢ per share from 70¢ a year ago. Significantly, the better position of the domestic producers is illustrated by Phillips' ability to turn in better earnings in each of the 1960 quarters. The company shows signs of remaining on the upgrade.

Major Company Reports

The pattern reported in the first installment of this report, of better results for companies closest to the consumer, is evident from the full returns. **Corn Products,** as a matter of fact, suffered a slight decline in sales but nevertheless scored a healthy improvement in earnings to 85¢ from 69¢ per share a year ago. An important factor in the company's improvement is its rapid growth abroad, spurred by the acquisition of Best Foods almost two years ago.

Paradoxically, **Colgate-Palmolive,** which saw its earnings decline to 73¢ from 86¢ last year, can lay much of the blame on its overseas operation which, although excellent, failed to grow this year. In the past, declines at home were usually offset by advances abroad. But this year, earnings at home were affected by the success of competitive tooth pastes such as Gleam and Crest, while operations abroad were held back by new competition and the simple fact that growth abroad has slowed down.

Despite the occasional exception, such as Colgate, the picture for the consumer goods companies is excellent. **National Biscuit** increased its sales modestly but widened its profit margins again, to 5.9% from 5.5%, and raised its earnings to 95¢ per share from 86¢ a year earlier.

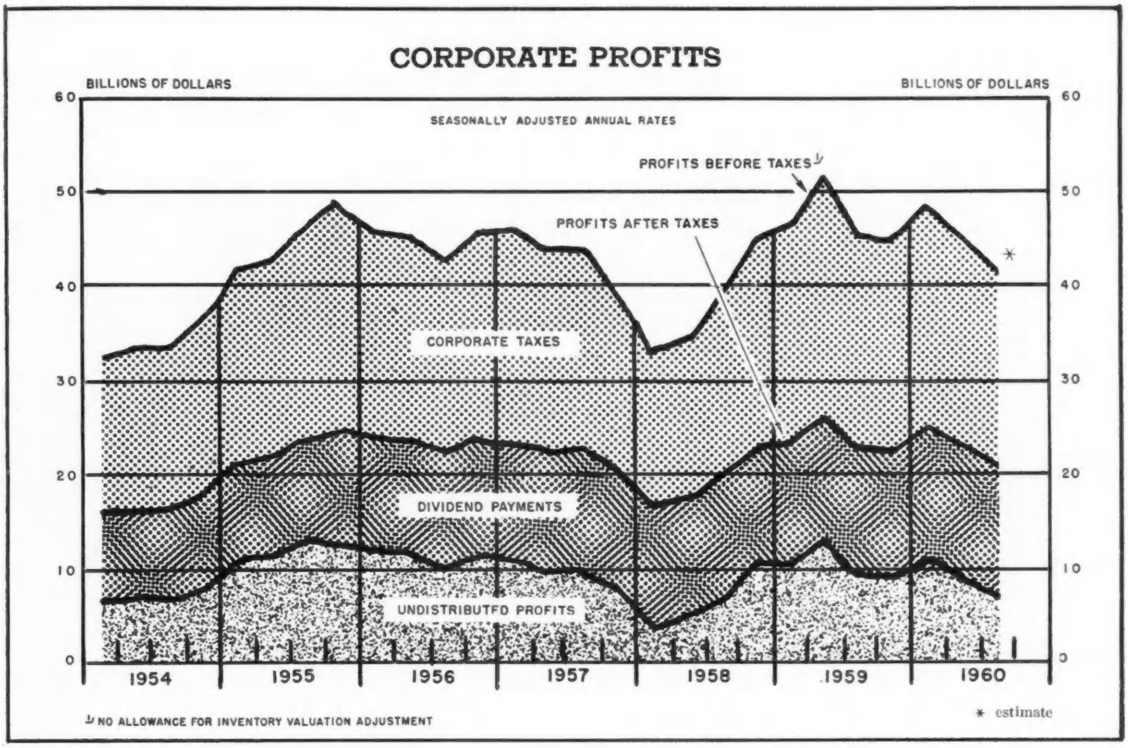
Borden's failed to raise its sales in the quarter, but a more profitable product mix raised earnings to 74¢ from 72¢ last year. Recently, Borden's indicated that it will continue its policy of concentrating on more profitable items by announcing a new product competitive with Mead Johnson's highly successful Metrecal dietary product.

Drug companies, however, continued to show evidence of decline in profit margins despite the high level of consumer spending. **Smith Kline & French** raised its sales to $36.2 million from $34.7 million in the same quarter of last year, but profit margins slipped and earnings declined to 43¢ per share from 48¢. **Merck** suffered a decline both in sales and in earnings. Net income came to 65¢ per share against 75¢ a year earlier. **Schering** endured an even sharper drop, as sales slipped only moderately, but net fell sharply to 77¢ a share from $1.01 last year.

Thus, the new product problems of the drug companies are brought into sharp focus. Not only are development and promotional costs high, but the other companies are able to invade the new fields almost immediately, cutting down the advantages gained from discoveries. Only **Pfizer** among the major ethical producers, with a long record of efficient operations, was able to improve. Earnings climbed to $1.13 from $1.05 a year earlier.

Wide Swings in Heavy Industry

Away from the consumer, the profits picture is one of less cheerful comparisons. The copper companies are an exception because of their strike period last year, but otherwise the pattern is highly consistent. Among the coppers, however, **Kennecott** is a standout. The company has a long standing reputation as the most efficient domestic producer, and proved it in the quarter just ended. Earnings rose to $1.82 compared with 99¢ last year. More importantly, nine months earnings virtually assure ample coverage for the $5.00 dividend. This is a real feat in a period of reduced copper prices and gen-



erally unstable conditions in the industry.

Alcoa, among the aluminum producers will earn its dividend with room to spare, but the coverage is not nearly as good as Kennecott's. Moreover, Alcoa's high price in relation to its dividend makes the stock particularly vulnerable, while Kennecott looks relatively more attractive.

Sales of aluminum dropped about 2% for Alcoa in the quarter but earnings fell over 30%, and this was despite the fact that the company reported much smaller than usual tax liabilities. Earnings came to 37¢ per share compared to 56¢ a year ago, and nine months profits equalled $1.33 compared with $1.88 last year. The reason for the smaller tax accruals is not clear, but probably reflects Alcoa's belief that its foreign sales will receive more favorable tax treatment. In any event, if taxes were reported normally, the decline in net income would have been even more severe.

But aluminum is not the only "growth" industry that suffered setbacks. **Owens-Corning Fiberglas,** a leader in new building materials, felt the decline in building enough to report 55¢ per share against 64¢ a year ago. Sales held up well, but profit margins were down. **Georgia-Pacific,** a pioneer in new uses for plywood also suffered its first quarterly decline in several years as a result of the poorer building picture. The 61¢ per share reported compares with 81¢ a year ago.

Texas Instruments managed to score a gain over last year, but it was an insignificant 2¢—not nearly enough to justify the astronomical price of the stock. The disappointing showing stemmed principally from a slowdown in defense business—a condition that should change with the new contracts now being awarded. Nevertheless, the trend all year indicates that Texas Instrument's rate of earnings increase has slowed enormously.

In the chemical industry, earnings results follow the pattern established in earlier quarters. **Olin-Mathieson** again fell behind last year, earning 58¢ compared with 69¢. **Diamond Alkali** slipped less, but nevertheless experienced a drop to 98¢ from $1.08 in last year's third quarter.

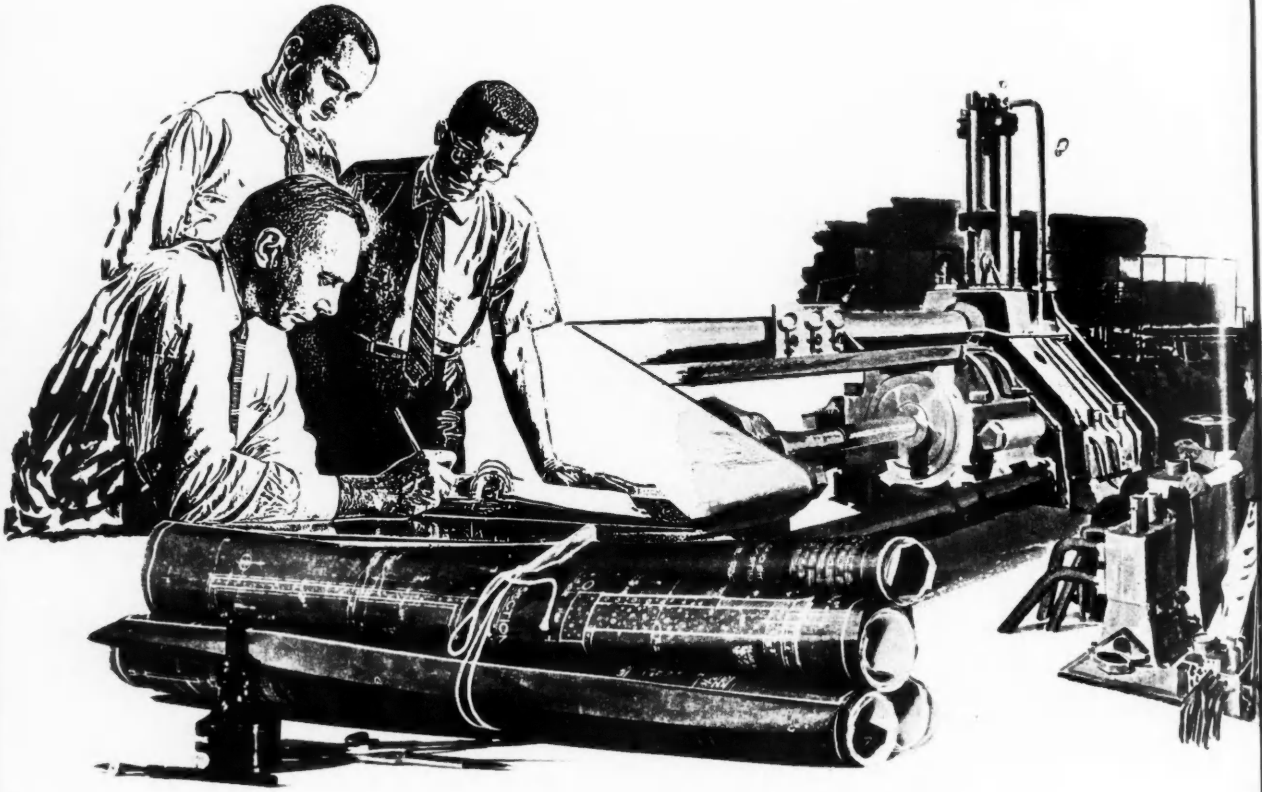
Grounds for Optimism

Third quarter earnings declined for most groups but there are signs of betterment ahead for many. In the chemical industry, for example, Dow showed in 1959 that earnings can pick up sharply when depreciation charges begin to drop. More of the industry will be in that position next year.

More important is the fact that many companies, such as U.S. Steel, Kennecott, Dupont, Union Carbide, and other industry leaders are earning their dividend even at depressed levels of operations. Hence, coverage will be extremely comfortable as soon as the present lull in activity ends.

Another ray of sunshine is the success GE had in holding the union in check in the recent unsuccessful strike. At the same time the West Coast longshoremen finally allowed automation on the docks. Other signs suggest that the rising cost of labor may be waning. If it is, much of the profit margin pressure will be lifted from American corporations.

Still other indications of a turn for the better may be noted. Defense orders are again being placed in volume; auto production is running at high levels and sales are unexpectedly high; and with each passing quarter, the high level of consumer demand brings closer and closer the day in which excess capacity will disappear. END



GAUGING The BUSINESS OUTLOOK

☆ By Company Backlogs
☆ New Orders ☆ and Inventories

By HOWARD NICHOLSON

THE combination of conflicting statistics and contrary opinions is understandably confusing to the investor trying to determine whether the economy is in a downtrend and threatening to fall further; or whether it is merely in a period of adjustment at a high level and can be expected to resume before long the upward movement that has become so characteristic of American business.

The statistics are conflicting, and do contribute to a confusing cross-current of opinions. Analysts, constantly attempting to gauge the future of overall business activity, are obliged to rely upon fragmentary data that are largely inadequate to the task. The current figures on new housing starts are a case in point. After an unexpected upswing in August, housing starts plummeted in September to a level 17% below the previous month and almost 30% below the corresponding month a year earlier. As a result, many economists predict trouble ahead.

But while we make no pretense at clairvoyance, we do recall that in recent years the economy has continued to advance despite sharp temporary downturns in several vital industries. In 1956 the auto industry virtually collapsed after its record year in 1955. Steel strikes crippled large segments of industry in 1957 and 1959. The aircraft industry has been in a three-year long slump. And for thirteen months during 1957-58 inventories were cut back so sharply that the entire economy was in a mild recession.

Despite these setbacks, however, the economy has continued to boom, confounding the Cassandras who foresaw doom in each sign of slowdown in basic industries.

These pessimists had given insufficient recognition to the revolutionary changes in technology that have fostered a whole series of new industries.

In our own appraisals of economic data we have placed particularly heavy emphasis on manufac-

Order Backlog Trends For Representative Companies

	Order Backlogs — Latest Reported (Millions)	3/31/60	12/31/59	Net Sales 1959 (Millions)	1st 9 Months — 1959 Net Sales (Mil.)	1959 Earnings Per Share	1960 Net Sales (Mil.)	1960 Earnings Per Share	Indicated 1960 Div.	Recent Price
AIRCRAFT										
Bendix Corp.	$ 468	$ 475	$ —	$ 689.7	$ 504.5[1]	$3.48[1]	$606.0[1]	$3.23[1]	$2.40	59
Boeing Airplane	2,000	1,960	2,000	1,612.1	1,160.6	1.06	1,202.2	2.03	1.00	34
Douglas Aircraft	1,154	1,413	—	883.8	658.2[2]	d6.73[2]	859.0[2]	5.73[2]	—	30
General Dynamics	2,655	2,400	2,555	1,811.8	804.3[6]	1.53[6]	979.7[6]	1.22[6]	1.00	38
Grumman Aircraft	315	370	260	288.9	199.5	1.21	240.6	2.54	1.50	31
Lockheed Aircraft	1,387	1,100	1,155	1,301.5	939.9	.86	962.3	d6.84	—	26
Mc Donnell Aircraft	365	433	—	435.8	99.1[3]	.74[3]	84.1[3]	.74[3]	1.00[4]	24
United Aircraft	975	1,000	1,000	1,081.0	545.5[4]	2.36[6]	543.2[6]	1.46[6]	2.00	37
ELECTRONICS & INSTRUMENTS										
American Machine & Metals	19	19	18	51.0	25.1[6]	1.72[6]	25.9[6]	1.45[6]	1.60	34
Fairchild Camera & Instrum.	35	21	20	43.4	30.3	1.39	49.4	2.39	.50	153
International Tel. & Tel.	576	565	551	765.6	333.7[6]	.93[6]	354.4[6]	.92[6]	1.00	38
Lear Inc.	81	71	—	87.0	38.5[6]	.44[6]	45.6[6]	.75[6]	.40	16
Magnavox	99	70	—	90.6	25.6	.53	28.1	.72	1.00	40
MACHINERY										
American Machine & Fdy.	250	160	158	225.4	205.6	1.69	246.0	2.10	1.60	63
Babcock & Wilcox	288	275	300	332.0	242.9	2.06	225.4	2.15	1.20	32
Bliss (E. W.)	40	38	36	74.6	52.2	.26	62.7	.95	—	14
Bullard Co.	8	8	8	15.8	7.4[6]	d1.90[6]	9.0[6]	d.79[6]	—	11
Cincinnati Milling Machine	52	55	47	106.3	47.4[6]	.37[6]	59.6[6]	.49[6]	1.60	32
Cooper-Bessemer Corp.	22	29	28	66.8	47.0	2.52	50.4	2.24	1.60[4]	27
Foster Wheeler	191	193	168	163.6	110.3	7.15	119.7	3.41	.40[4]	27
RAILWAY EQUIPMENT										
Alco Products	31	34	40	114.5	64.5[6]	1.13[6]	55.3[6]	.80[6]	.60	13
American Brake Shoe	37	42	40	168.0	127.7	3.68	123.0	2.21	2.40	36
New York Air Brake	11	12	12	42.9	31.8	2.35	31.2	1.75	1.60	26
SHIPBUILDING										
Bath Iron Works	85	100	—	58.8	31.6[6]	2.77[6]	28.9[6]	2.96[6]	3.00	47
Merritt-Chapman & Scott	504	—	—	427.0	218.1[6]	.92[6]	179.6[6]	d2.23[6]	—	9
New York Shipbuilding	229	233	252	115.9	59.9[6]	.74[6]	61.3[6]	d2.64[6]	—	14
OTHER INDUSTRIES										
Allis-Chalmer Mfg.	209	248	—	539.6	387.8	1.69	409.3	.96	1.50	22
American Steel Foundries	25	31	34	112.3	112.3[5]	2.44[5]	120.1[5]	2.69[5]	1.60	28
Brunswick Corp.	161	—	—	275.1	203.6	2.52	278.0	3.35	.80	77
Emerson Electric	54	64	55	91.3	69.5	1.91	76.2	2.22	1.00[4]	43
Garrett Corp.	98	—	102	193.6	50.0[3]	1.36[3]	47.6[3]	.28[3]	2.00	53
Koppers Co.	137	163	—	240.2	113.7[6]	1.00[6]	147.7[6]	1.71[6]	2.00	37
Mc Kee, A. G.	66	44	43	52.2	N.A.	1.72	N.A.	1.20	1.50	25

d—Deficit.
N.A.—Not available.
1—9 months ended June 30.
2—9 months ended August 31.
3—1st fiscal quarter ended September 30.
4—Plus stock.
5—Year ended September 30.
6—1st 6 months.

turers' sales, new orders and order backlogs because these statistics come closest to measuring the pulse of the basic industrial segment of business. Regardless of what other statistical series indicate, the real intentions and actions of businessmen are reflected in the orders they place with others for new equipment. Once, the sales figures for basic industries (which represent delivery of yesterday's orders), when measured against the current flow of new orders, give an effective indication of the backlog of fat that basic industries have to depend on in lean periods.

Economy Stalled — at Very High Level

Analysis of these data confirm that the economy is now stalled at a very high level, but there is nothing in the picture that justifies some of the direct predictions that have been flung about in recent weeks.

As a matter of fact, a heavy flow of defense contracts in September raised manufacturers' new orders $400 million over the August level and increased order backlogs for the first time in several months. To be sure, the improvement was largely in the aircraft industry, but within a relatively short period these new orders must result in additional business for the machinery makers, metal companies and other basic industries as well.

This is significant, because the machinery makers, in particular, have maintained relatively high backlogs all through 1960 and can thus absorb a brief slowdown until these new orders materialize. For

perspective, it should be pointed out that new orders grew very rapidly until last winter, so that merely maintaining backlogs at or near the high levels of a year ago is a considerable accomplishment. Yet **Babcock & Wilcox,** which had a backlog of $300 million last December still has $288 million despite sales that should run above last year's $332 million. In other words, Babcock has almost a full year's sales on the books.

American Machine & Foundry, another heavy equipment producer has a backlog of $240 million, up from $135 million in December, which is greater than all of its sales last year. A similar relationship of backlog to sales exists for **Foster-Wheeler,** with bookings of $191 million compared with sales last year of $163.6 million. The balance of the machinery companies in the table, with the single exception of **Cooper-Bessemer,** all have higher backlogs today than at the beginning of the year.

Unfilled orders for electrical machinery and equipment are also well above year-end levels. Generating equipment orders, as well as equipment for office and warehouse automation have continued to climb. Although **Allis Chalmers** suffered some drop in its position between March and September 1960, most of the decline was in farm equipment backlogs. The electrical equipment end held up very well. **International Telephone & Telegraph** has improved its unfilled order position considerably since the end of 1959, with backlogs now standing at $576 million compared with $551 on December 31, 1959. **American Machine & Metals,** which now specializes in electrical machinery, has a $19 million backlog against $18 million at year-end, while **Lear, Fairchild Camera** and **Magnavox** all show substantial improvement during 1960.

Hope For Future Profit Margins

The high level of order backlogs in these industries indicates that the economy is far from paralysis. But it also has important significance for the future profit margins of these companies. For when backlogs begin to fall off sharply, companies often are tempted to reduce their bids and take on new business at lower than normal profit margins. With their protective cushions at the moment, however, most of them are well able to absorb the full impact of a current slowdown in economic activity without sacrificing profitable operations six months or a year in the future.

Of course, in other industries where the backlog situation is less favorable, future profit margins may be adversely affected. In the railway equipment field, for example, backlogs have receded fairly sharply this year. Shipments of freight cars in August were typical of the year's pattern. Manufacturers delivered 2,371 finished cars but received orders for only 709 new ones. In dollars, the backlogs of all transportation equipment companies were down to $14.7 billion from $15.7 billion one year earlier. Moreover the most recent trend in new orders indicates a further drop as the year progresses.

The overall significance of this decline, however, is not as great as appears at first glance. For railroad ordering of new equipment is no longer a sign of weakening economic activity, but rather of the particularly sad plight of the railroads themselves. This is not the place to discuss the reasons for the railroads' problems; it is enough to recognize here that the industry has failed to keep up with the economic boom of the post-war years and that its continuing troubles cannot be read as a sign of weakness in the economy.

For the companies providing equipment to the carriers, however, the trials of the rail industry will hurt. **Alcoa Products** has already suffered a 33% decline in backlog since the beginning of the year and the trend will probably continue. As the second largest producer of locomotives the company is suffering from the reduced earnings picture for the roads and the difficulties they are having in financing new equipment. Consequently, not only are current operations affected, but future contracts will probably call for lower profit margins, in an effort to reduce costs to the roads and induce them to spend some money replacing aging locomotives.

American Brake Shoe and **New York Air Brake** are in a similar fix. New orders have continued at a low level, eating substantially into their unfilled order positions. As a result, Brake Shoe is now down to a $37 million cushion, compared with annual sales of $168 million, and New York Airbrake to $11 million compared to sales of $42 million. Here again, these difficult circumstances, new business will probably be written at lower profit margin levels than have prevailed in the recent past.

A Brighter Picture Elsewhere

The dark plight of the rail equipment makers is not, as already suggested, typical of heavy industry, aside from the steel makers. Unfortunately, steel companies do not release their backlog figures, but with operations running at under 55% of capacity, it is obvious that backlogs are not very significant.

Nevertheless, some companies closely related to the steel industry present backlog pictures that are far from discouraging. **Koppers Co.,** a major producer of steel mill equipment, for example, has bookings of $137 million compared with $123 million a year ago. Heavy shipments this year have cut down the even higher unfilled order position that existed in March, but the significant factor is that it remains higher than a year ago.

Another important supplier, **Blaw-Knox,** does not appear in the accompanying table because it has not released dollar figures. Nevertheless, its backlogs are known to be at record levels. This fact is significant, since Blaw-Knox's output is primarily for rolling mills—a kind of expenditure the steel mills would hardly be making if they were not optimistic about the future demand for steel.

"Solid" Backlogs for Aircraft Manufacturers

One of the brightest spots is the aircraft industry. Figures for this industry also illustrate one particular in which current backlog figures must be treated with caution. Although backlogs are down in most instances the position of the industry is still distinctly favorable.

To appreciate this apparent anomaly we must analyze briefly the nature of backlogs as they apply

to all industries. In effect, backlogs build up in one of several ways. The first, and most obvious, is the writing of new orders more rapidly than shipments can keep pace. This, of course, is ideal. However, a slowdown in shipments, at the request of customers, would have the same statistical appearance, and yet would be a very much different indicator of business activity. The electrical equipment makers illustrate the first situation at the moment. Earlier in the year, Blaw-Knox and other steel mill suppliers illustrated the second, the less enthusiastic, type of backlog projection.

For the aircraft industry, the present backlog position is "solid", as the existing surplus of bookings derives entirely from new orders. A huge inflow of orders in the last two years has built up backlogs far in excess of shipping abilities. At the moment, these backlogs are down from their highs, but still represent many months, or even several years of full capacity operation. **Boeing,** for example, has a $2 billion backlog against shipments last year of $1.6 billion; **General Dynamics** a $2.6 billion unfilled order position compared with $1.8 billion in sales last year; **McDonnell** a backlog fully equal to last year's sales; and **Douglas** a $1.1 billion cushion compared with $883 million in sales in 1959.

In brief, these companies have a long way to go before they work off business booked a year to three years ago—and yet the government is now in the process of placing huge new orders. Just the reactivation of the B-70 long range bomber program, which has been announced in the last few days, should be enough to raise backlogs to new highs for many of these companies. But additional contracts will also be forthcoming.

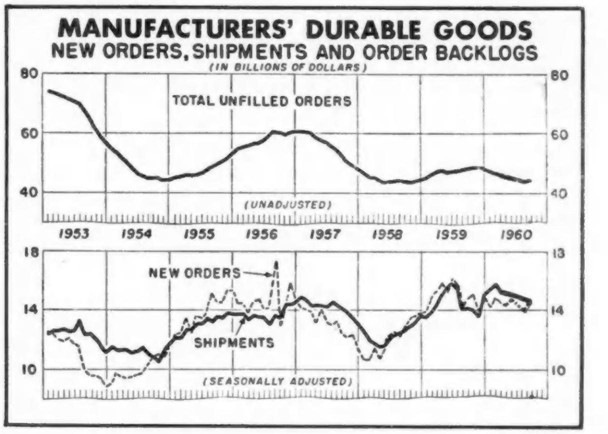
Hence, the aircraft industry may well be on the verge of breaking out of its two year earnings slump. The period of uncertainty, in which defense officials were torn between missiles and aircraft, seems to have ended with a balance between the two. Aircraft will continue to be used because of their reliability, while research and development of more accurate and sure-fire missiles will also be pushed.

Machine Tool Industry Illustrates Need for Cautious Interpretation of Backlogs

So far, backlogs for most heavy industries have held up well despite the downturn in general business activity. The real importance of this picture rests in the employment that is assured and the profits that will be reaped during a trying period. ***Investors should be aware, however, that backlogs in many industries have a potentially evanescent quality—and can diminish or disappear with alarming rapidity if business conditions turn much worse.***

Some indication of this possibility appeared in the September report on new orders for the machine tool companies. After a rebound in August, new orders, especially for cutting machinery, fell by 8%. Cancellations of orders already on the books were exceptionally high, aggregating $7,950,000 for all types of tools, against cancellations of only $1,600,000 a month earlier.

The significance of this sharp drop is difficult to determine, but explanations other than gloomy ones can be found. It is possible, of course, that orders were cancelled because of bad business. But September was also the month of the tool industry's big national show. It is conceivable, therefore, that many buyers came away so impressed with the new machinery exhibited that they went home to reappraise their buying needs. The cancelled orders for older tools, therefore, may shortly reappear in the form of orders for newer and more efficient machines.



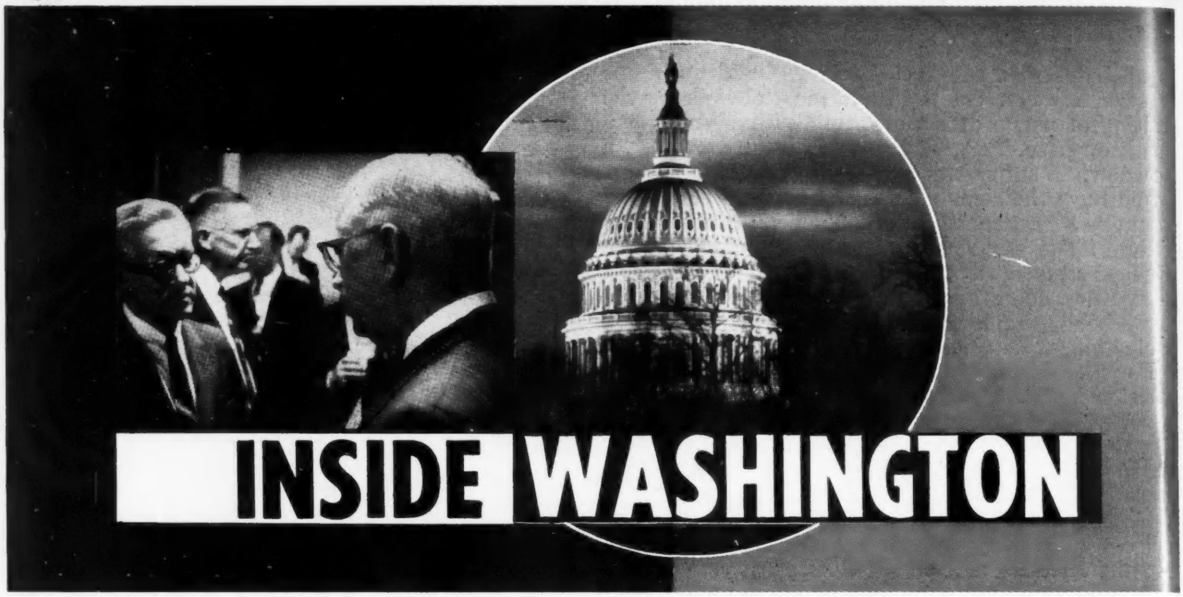
In any event, the industry has some leeway. Orders on the books, even after the cancellations, are equivalent to 4.2 months work for the industry as whole. For some individual companies it is even higher. **Cincinnati Milling Machine Co.,** one of the outstanding companies in the field, has a backlog of $52 million, or almost half of last year's sales of $106 million. **Bullard,** although a much smaller company, also has a backlog equal to more than six months shipments.

Nevertheless, investors in heavy industry shares should remain aware, that for various reasons, backlogs are subject to cancellation—an action that can suddenly and radically alter the outlook for companies in many fields. Of course, cancellations are only valid before production has started. Accordingly, companies like General Electric and Westinghouse, which include in their backlogs huge generating equipment that take two to three years to complete, are less vulnerable on this score than companies with shorter production cycles.

Aircraft companies, however, along with most other major defense industries, are subject to instant cancellation of most of their backlogs. Hence, paying too high a speculative premium for these stocks would be foolhardy.

When Inventory Restocking Does Resume . . .

A cyclical downturn in economic activity is undoubtedly in progress. Yet a large and important segment of American industry is assured of good levels of production for many months to come as a result of their large unfilled order positions. A major recession, of course, could eventually lead to serious trouble for these companies. But so far no indications exist of anything more serious than an adjustment. Profit margins may decline, but most companies will be *(Please turn to page 261)*



INSIDE WASHINGTON

BY "VERITAS"

KENNEDY majority—both popular and Electoral College—is too small to assure him any measure of success in carrying out the Democratic platform pledges of last July. His party lost ground in the House and remained practically stationary in the Senate, indicating a continuation of the conservative trend both Houses have displayed over the past two years in the face of pressure groups' insistence that government must provide "pie in the sky" for all people, all nations. The very closeness of the contest should prove conclusively—even to the "New Frontiersman"—that the country is not yet ready to accept "a bill of goods" to be paid for, either by back-breaking taxation, or by inflationary deficit financing. Ranking Capital City politicians of both Parties say, in effect, that the only "mandate" Mr. Kennedy can read into his success is to conduct the affairs of the White House with the fiscal responsibility of the present incumbent.

WASHINGTON SEES:

Chaos in foreign relations may exist after next Jan. 20 because of the election of Sen. John F. Kennedy to the Presidency. This is the view of confirmed Democrats as well as impartial Republicans. The President, by tradition and Constitutional prerogative, makes the Nation's foreign policy. He sets the pace and appoints the Ambassadors to carry out his ends.

What the pace will be is problematical, as are the Ambassadors, most of whom will get their assignments in ratio to the contributions they have made to the campaign. Disturbing to career foreign service personnel, there is the Senator's campaign assertion that he feels we should intervene in Cuban affairs — not by direct military invasion, but by giving material sustenance to the forces that wish to overthrow Mr. Castro. It is perhaps ideologically correct, but to what extent would it dangerously affect our present Latin-American relations? Much of the uneasiness stems from Mr. Kennedy's earlier off-the-cuff observation that a Presidential apology was due Mr. Khrushchev following the U-2 spy plane incident.

On the domestic front, it is feared that Mr. Kennedy will give forceful endorsement to the ultra liberal Democratic platform written at Los Angeles, primarily favoring the forces of organized labor as represented by Walter Reuther, head of the United Automobile Workers. However, there are some indications that he secretly hopes to hit a blank wall of Congressional opposition on that score.

CONGRESSIONAL checks confront Mr. Kennedy, and they are for the welfare of the Nation. He will find himself unable to obtain the billions of dollars necessary to carry out his reckless promises. In the Senate, Carl Hayden of Arizona will continue as chairman of the powerful Appropriations Committee. Conservative Democrats, Senators Harry F. Byrd and A. Willis Robertson, both of Virginia, continue as Chairmen of the Finance and Banking and Currency Committees; each has a high regard for the taxpayer's dollar. On the House side of Capitol Hill, equally thrifty men will Chairman the so-called "purse string" Committees—Clarence Cannon, of Missouri, Appropriations; Brent Spence, of Kentucky, Banking and Currency; Wilbur Mills, of Arkansas, the tax-writing Ways and Means Committee. Other Committee Chairmen of both Houses have been returned to office. Perhaps most potent of the groups is Howard W. Smith, of Virginia, Chairman of the House Rules Committee which has virtual life-and-death power over any and all legislation—sensible or extravagant; and there is no possibility that the incoming Congress will curb that power.

LABOR'S power was definitely diminished, even though their favored candidate enters the White House next January 20. Hoffa's powerful and wealthy teamsters union was about the only organization in labor's camp that did not throw its manpower and money to the support of the young Boston Senator, confident of a landslide win.

SUMMARY: Official Washington regards the Kennedy triumph as personal, not political. He ran on a platform of waste and extravagance, but failed to get the desired mandate to carry it out.

As We Go To Press

Missile Program Far Better Than Realized. This is the report from a more than reliable source which states that we have initiated 330-odd missile projects since World War II. Some have been abandoned in the course of testing and experimentation but fact remains we are somewhere near to perfection of 11 intercontinental, five intermediate, 16 long-range, 13 medium-range, and 27 short-range missiles. In addition, we can boast of 16 anti-submarine missiles. Also, we are far ahead of the Russians in the space field — satellites, space power, new methods of guidance and propellants.

Overlooked by many is fact that Russia has announced only her successes in the space-missile race — none of her failures. And reliable intelligence sources say the failures far outnumber the successes. In the meanwhile, we have underway no less than four score secret missile-space projects of which nothing has been publicized. It may add up to an explanation of Khrushchev's recent statement that missile artillery aid promised Cuba was "symbolic," rather than factual. No less than 700 U. S. contractors are now engaged in our missile-space programs. Both White House and Pentagon are optimistic!

Small Business Failures Move Upward. Small Business Administration, $1.3 billion loaned to small business firms — many of them new operations — is now facing a bad debt expense rate of approximately 2%. With this much red ink on its books, SBA swings into frantic, belated studies of the economic and competitive "whys and wherefores" of small business failures. Some of the studies are to be made by SBA forces, others by private research organizations.

State Department and National Security Council Planning Foreign Service Academy. Presently in the draft stage it perhaps will be unveiled by mid-month, to be followed by President Eisenhower's approval and inclusion in his final message to the Congress. It would be patterned somewhat after the present service schools — Annapolis, West Point and the Air Force Academy — but without the military features. Students will "sign up" for eight years, four of them at the Academy, four in foreign service. It may mark the end of political diplomatic appointments within a few years. Insiders are agreed that our diplomatic-consular-information representatives overseas lack the proper, intensive training to their jobs — both in foreign relations and foreign languages. It is hoped that the new organization can develop high caliber personnel who will make careers of the service.

Polaris Bases to be Globe-Girdling. A Scottish base for Polaris-equipped submarines marked the beginning of a program of similar bases destined to be virtually world-wide, this despite Khrushchev's "rocket-rattling" protests. There is a definite trend now toward nuclear arms for our NATO allies who have not yet developed their own. France has developed and tested two, but is a long way from anything like a stockpile. Also, West Germany's research in the thermo-nuclear field has been "amazing," according to U. S. experts who predict discoveries of the Bonn republic will materially reduce weapons production costs.

Other Arrests of Russian Spies in the Offing. Federal Bureau of Investigation, which recently bagged a Russian United Nations staffer and his aide, will shortly close in on four or five more — all with U. N. connections or diplomatic passports. FBI Director J. Edgar Hoover has developed one of the greatest domestic counter-espionage forces in the world and, there is strong bi-partisan Congressional feeling that he should even head up the Central Intelligence Agency (CIA), now directed by Allen W. Dulles, brother of former State Secretary John Foster Dulles.

Bituminous Coal Industry in the "Blues." Recent easing of residual oil imports for the New England area may be extended, the coal

interests fear, despite fact that Interior Department proposes a Jan. 1 cutback on crudes and semi-finished petroleum imports. Also besetting the coal men is mounting fatalities in the mines. In the meanwhile "dumping" of natural gas (to industry) at low rates is retarding annual coal production by as much as 70 million tons, the coal men say. The coal group, unhappy with Administration's handling of fuels and energy problems, plans a wide-spread public appeal, pitched to the line that coal is our basic energy supply — that further hindrance of production would bring a national calamity should war come.

Electronic Computing Gets Rap From Navy. A recently-completed survey of its electronic data processing programs, will bring a discouraging report to the manufacturers of this type of equipment, as well as to other Federal agencies now automated in their data and accounting operations. Eighty-three percent of the automatic installations — all expected to reduce costs — actually boosted them; personnel had to be increased rather than reduced as anticipated; complexity of implementing the electronic system has been seriously underestimated. In summary, Navy will say that significant management improvements have not materialized to the hoped-for extent; that the situation is presently disappointing.

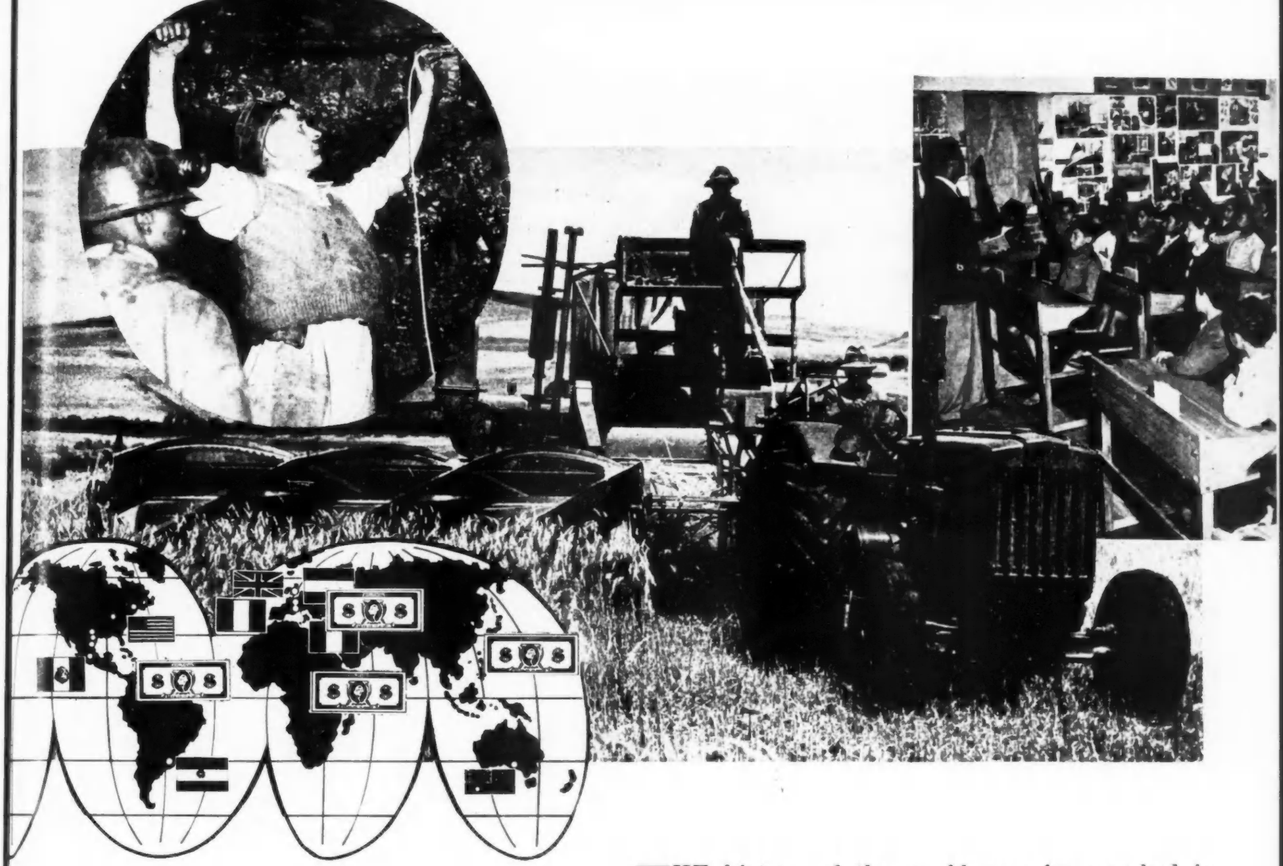
Loan to Yugoslavia Rates an Interrogation Point. Tito's publicly expressed view that he would get around $400 million loan from the U. S. to stabilize his own currency and improve the Balkan nation's foreign exchange position seems a surprise to Washington circles. We gave the Slav dictator considerable support — economic and military — in his efforts to completely break away from Kremlin dictation, but the Khrushchev-Tito "love fests" at the recent United Nations meet raise eyebrows on the question of the Yugoslav chieftian's sincerity in his desire to continue outside the international Communist orbit.

Congo Chaos to be of Long Duration. This is the considered opinion of Diplomatic sources here. Although pro-Russian premier Patrice Lumumba is apparently in the acendancy to wrest powers from president Joseph Kasavubu and army chieftian Col. Joseph Mobutu, elements in the troubled baby republic (with undercover backing from Belgian nationals) are getting stronger every day. United Nations forces there are not too effective as military units, possibly could not suppress a determined move by Kasavubu and Mobutu. At stake are rich copper and uranium deposits — eyed hungrily by the West and Russia.

Do We Resume the Suspended Nuclear Tests of Underground Variety? Defense and Atomic Energy Commission officials insist the course be taken. Mounting frequency of seismic disturbances — far faster than the normal number of earthquakes — is convincing evidence that some nation is carrying on these tests at "an alarming" rate; Russia, of course. High AEC sources fear the Reds, with their underground tests, are well on the road to perfecting a fantastic new nuclear bomb which could be the "ultimate" weapon.

"Hot Cargo" Cases Move Toward Show-Down. National Labor Relations Board begins hearing oral arguments Nov. 21 to make an initial review of the effect of the Federal ban on "hot cargo" agreements contained in the basic labor-management statutes — the ban became effective more than a year ago, but did not bring noticeable stoppage of trucking unions, and other demands, that contracts between union and employer under which the employer will refuse to handle the products of another employer or will cease doing business with him. Thirty-odd union-employer groups are involved, but there are indications the Board can hear all concerned and hand down a decision before year's end. Educated guess — the unions will lose.

Fiscal 1962 Budget Shaping Up, Rapidly, Will Be Arround $2 Billion Above Current (1961) Budget. At this point there have been no "leaks" from Bureau of the Budget, but indications are that President Eisenhower will ask about $82.2 billion expenditures (slightly over one-half for defense) against estimated revenue of $84 billion. Although he leaves office Jan. 20, it is the President's responsibility to submit his budget, regardless of election returns. The new Budget very likely will go to Congress Jan. 16, two days sooner than last year. It is subject to later change by the winning White House candidate.



What did we get for it? . . .

THE $78.5 BILLION WE SPENT IN FOREIGN AID

— From 1945 to March 30, 1960

By NORMAN A. BAILEY

- **Exclusive — First-hand figures of loans made — brought up-to-date by Mr. Lawrence Sullivan, Coordinator of the U.S. House of Representatives, Washington, D. C. — gives you a full picture of the money we spent country-by-country, including those behind the iron curtain**
- **The problems produced — where high cost administration employs 30,000 people — loss and gain economically-financially from our efforts**
- **Place of foreign aid as a cold war weapon — the obvious fallacies — and the change of direction necessary in the '60's to turn foreign aid into a practical operation**

THE history of the world may be searched in vain for an example of aid by one country to others in any way comparable in scope and magnitude with the effort launched by the United States after the second World War, and still continuing today, with the end not yet in sight.

During the past fifteen years (to March 31, 1960), this government disbursed a total of seventy-eight and one-half billion dollars in military assistance, economic aid, inter-governmental credits and surplus farm products delivered abroad for local currencies. Of this total sixty-one percent was in the form of military aid, thirty-two percent economic assistance and seven percent in the form of capital subscriptions to various international lending agencies, chiefly the International Bank for Reconstruction and Development (IBRD—World Bank) and the International Monetary Fund (IMF).

Seventeen Nations Received $55.4 Billion

Seventeen nations, from France with $9.7 billion to Spain and Austria, which have received one billion dollars each, account for seventy percent of the foreign aid so far, or 55.4 billion dollars. Of these seventeen countries, eleven are European (including the top four) and three are the former principal members of the Rome-Berlin-Tokyo Axis.

The Western European countries as a whole have been the beneficiaries of 57.4 percent of this foreign aid (excluding capital subscriptions to international organizations), a total of 42.3 billion dollars. Various Asian countries have received eighteen billion dollars in foreign aid, or 24.4 percent of the total, most of which went to *Formosa, Korea* and *Japan.*

In contrast, *Latin Ameriua* and *Africa* together

UNITED STATES FOREIGN AID BY REGIONS — 1945 through March 31, 1960

Billions of U. S. dollars

Country	Billions of U. S. dollars
EUROPE—Total 42.267	
France	9.7
United Kingdom	7.7
Italy	4.8
Germany	4.6
Greece	2.7
Turkey	2.6
Yugoslavia	2.0
Netherlands	2.0
Belgium-Luxembourg	1.8
Spain	1.0
Austria	1.0
Norway	.892
Denmark	.719
Portugal	.368
Ireland	.142
Sweden	.105
Finland	.087
Iceland	.054
ASIA—Total 18.017	
Formosa	4.4
Korea	3.7
Japan	3.2
Vietnam	1.6
India	1.4
Philippines	1.2
Indo-China	.821
Thailand	.480
Indonesia	.408
Laos	.261
Ryukyu Islands	.237
Cambodia	.228
Burma	.064
Nepal	.017
Malaya	.001
AFRICA—Total .340	
Morocco	.106
Tunisia	.077
Ethiopia	.064
Liberia	.052
Rhodesia	.032
Somaliland	.004
Ghana	.003
Guinea	.002
LATIN AMERICA—Total 2.897	
Brazil	.782
Mexico	.321
Peru	.257
Argentina	.229
Chile	.228
Colombia	.202
Bolovia	.181
Guatemala	.094
Ecuador	.063
Haiti	.060
Cuba	.053
Costa Rica	.047
Uruguay	.040
Panama	.032
Paraguay	.028
Nicaragua	.024
Honduras	.022
El Salvador	.009
Dom. Rep.	.008
Venezuela	.007
General	.210
MIDDLE EAST—Total 3.031	
Iran	.813
Pakistan	.778
Israel	.596
Egypt	.208
Lybia	.113
Afghanistan	.098
Lebanon	.070
Iraq	.069
Ceylon	.052
Saudi Arabia	.018
Yemen	.005
Jordan	.194
Sudan	.017
IRON CURTAIN—Total 1.332	
Poland	.654
USSR	.423
Czechoslovakia	.191
Hungary	.027
Albania	.020
E. Germany	.017

OTHERS, International Organizations and Unspecified: 5,813

have received only 3.3 billion dollars in aid, representing 4.4 percent of the total, nearly on a par with the **Middle East,** which includes oil-rich Saudi Arabia, Iraq and Iran.

A curious footnote is provided by the fact that six iron curtain countries have received since the war 1.3 billion dollars in aid from the United States. Most of this money was distributed soon after the end of the war, but Poland has been receiving additional aid since the abortive 1956 uprisings.

Our Top-Heavy Costly Bureaucracy

A bureaucracy, the size of which would staff the entire governments of many of the smaller countries of the world, has been created to deal with this massive effort. There are some thirty different foreign aid programs now active the world around under direct U. S. supervision.

The International Cooperation Administration (ICA), the principal government organ charged with administering the program, employs over ten thousand persons, divided between Washington and overseas posts in the ratio of about one to four. In addition to this more than eleven thousand persons are employed by the United States Information Agency, which provides essential back-up to the foreign aid program by informing foreign nations and peoples of our efforts. More than eight thousand of these employees are stationed overseas.

The Theory Back of the Loans

Two primary reasons for the dominant position of *Europe* and *Japan* within the foreign aid program may be cited. The first, of course, was the extensive war damage which had been inflicted on those areas. A more important reason, however, was the strategic threat posed immediately upon the cessation of hostilities by Soviet Russia. Western Europe and Japan were in the immediate line of fire and had to be shored up as rapidly as possible to provide firm bulwarks against communist expansion.

Indeed, had we provided China equally lavishly with men, money and materials that country would probably today still be on the side of the Western powers. Although the cost might have seemed high then, we have since spent many times the amount in the military preparations necessitated by that strategic defeat.

Rising Competition at Home and Abroad

What have been the effects of this outpouring of financial aid on the economic development of Europe? The only relatively meaningful measure of economic growth with fair accuracy available for the entire world is value of exports. While such a measure has obvious limitations, with appropriate adjustments and exceptions it can be accepted that a steady secular trend upward in value of exports denotes a healthy economy. As can be seen in the accompanying chart, the growth in the value of Western European exports over the last ten years has outstripped even that of the United States, and is incomparably greater than growth in the underdeveloped world.

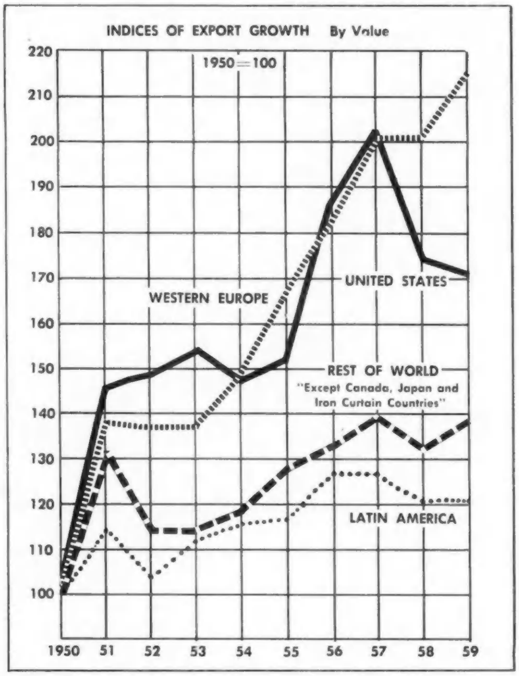
This does not imply, of course, that this growth has been due entirely to American aid. Despite the destruction of the war, Europe still entered the period with a backlog of skills and industrial equipment far superior to that of any underdeveloped area. It was also threatened by imminent Soviet aggression and internal subversion, requiring a recovery as rapid as possible. Finally, as both a cause and effect, economic unification of the European heartland has reached an advanced stage, providing European (and American) manufacturers a combined market almost as large as that of the United States.

Nevertheless, the billions of dollars poured into Western Europe by this country have had an influence that cannot be denied. It must not be overlooked that the military aid has had an effect almost equal to that of the economic aid, by freeing local capital for productive economic investments. **In short, U. S. foreign aid, coupled with a capability on the part of the European economy to absorb large amounts of capital, has resulted in a period of economic growth unparalleled in European history.**

A Change of Direction in the Sixties

The world of the sixties, however, will present very different problems from the world of 1945-1959, and will call for a new direction of international economic aid on the part of the United States and other countries. The very fact of the astonishing postwar economic recovery of Europe means that Europe should and must shoulder a much greater share of the burden of its own defense.

The same is true of Japan. Beyond that, Europe and Japan should expand greatly their programs of economic aid to underdeveloped areas, especially Africa, the Middle East, and Asia. It must not be forgotten that the primary area of responsibility for the United States is Latin America, still protected by our Monroe Doctrine, multilateralized a decade ago into the Organization of American States. This responsibility has been neglected since the Second World War—only 3.9 percent of our foreign aid went to this vital area, and partly as a result we now have a focus of communist influence only a few miles off our coast.



The continued high level of our foreign aid programs has put pressure on our gold reserves, resulting in an exaggerated panic over what is in reality a healthy situation, with our imports tending to come into better balance with our exports. It is encouraging that the government has not given way to frantic solutions, such as devaluing the dollar or imposing greater import restrictions, but has concentrated on the crux of the difficulty by urging greater contributions to world economic development on the part of those former recipients of aid now well able to help others. It is to be hoped that the new Administration will follow an equally sensible policy.

Since the yearly amounts the United States spends abroad are not likely to increase greatly, both the direction and type of aid dispensed should be modified to reflect changing conditions in the free world. In the first place, it must be realized, both by the underdeveloped nations and by our own administrators, that their economies simply cannot digest very large infusions of capital, in the same way that the European nations were able to absorb such large amounts. An economy which has the basic skills and organization, no matter how severely damaged by war or otherwise, can absorb quickly and effectively aid on a massive scale, such as the Marshall Plan provided.

For countries such as *Ghana* and *Nicaragua*, however, it is true more often than not, that investments of a few tens of thousands of dollars in carefully selected projects can bring far greater benefits than millions poured in, which would have the primary effect of creating inflation and promoting graft. Naturally, a vast country such as *Brazil* can absorb larger sums, but even here a program to give the farmers of the parched Northeast ownership of the land they till, irrigation and instruction in proper agricultural methods, would be of much greater long-range benefit than any number of huge steel mills.

Local Initiative Must Be Stimulated

Above all, there must be a greater appreciation within the under-developed countries themselves that economic development has never, and will never, come as a gift from external sources. It can be only a product of internal effort and the internal allocation of resources. Advanced social legislation (if adhered to) and constantly rising patterns of consumption are incompatible with economic growth, in just the same way that a wastrel will disinvest his inheritance or a family will attempt to consume more than it can pay for (a common occurrence in this country). Wisely devised taxation legislation, designed to raise revenues for essential government services, while not inhibiting private investment and the proper political and economic climate for domestic and foreign investment, are essentials which cannot come from foreign aid. Such aid, therefore, must not, except in cases of extreme strategic emergency, be a mere bail-out operation, doled out to those countries which spend themselves into a hole and then come asking for help. In addition to investing in carefully planned and feasible, rather than grandiose, industrial projects, American aid should be channelled into the diffusion of those skills and technologies which we possess to a greater extent than any other country of the world. We should also aid underdeveloped countries in improving their economic facilities — communications, transportation and power, fields in which foreign private capital is now, for very good reasons, reluctant to invest. Social overhead, health, housing and education, can also be promoted by the United States, which at the same time *(Please turn to page 260)*

A NEW DAY FOR THE RAILS THROUGH LARGE-SCALE MERGERS?

By ROBERT B. SHAW

- **Strengthening the railroads for a more vigorous competitive struggle**
- **Risks of inter-industry fight — need for railroad statesmanship — railroad mergers in sight**
- **Appraising each of the newly proposed mergers — and the advantages that would accrue to the stockholder — to the investor**

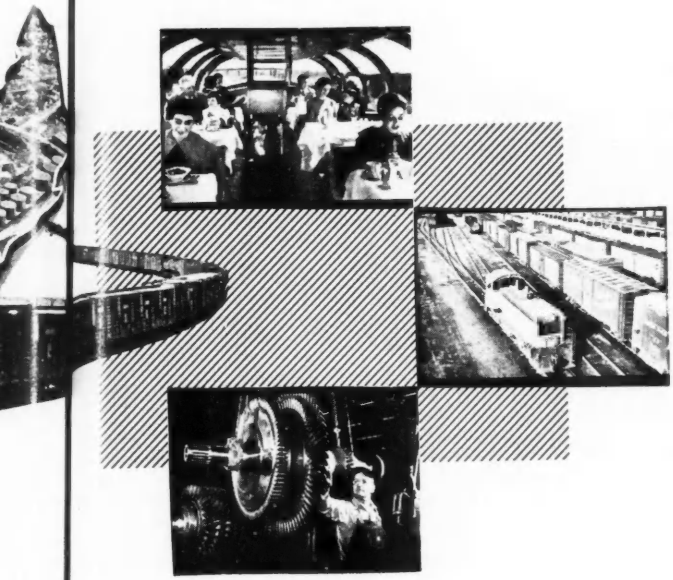
THE modern railroad boxcar, gondola or covered hopper carries each ton of freight a mile for an average charge of a cent and a half. By contrast the truck rate for moving one ton the same distance runs around 6 cents, while luxury goods can be moved on cargo planes for 25 cents a ton-mile.

With this enormous cost advantage over their major competitors the railroads should be expanding their share of the nation's traffic steadily. In actuality their relative position is declining gradually, and in 1955 for the first time they carried less than half of total U.S. intercity traffic as measured on a ton-mile basis.

Unable to Utilize Inherent Advantages

The explanation is that the railroads are, for various reasons, unable to exploit fully the inherent mechanical advantage of the flanged wheel upon the steel rail. The high speed, 100-car freight train flashing by the waiting commuter, bearing 5,000 tons of freight and forming what is essentially a single vehicle under the control of a five-man crew, is indeed an impressive sight.

Unfortunately, the complete transportation service rendered is much less efficient than the movement of this highball freight between major terminals. Although many freight schedules now approach passenger train standards, average freight train speed is no higher than 20 m.p.h. And, what is more pertinent to shippers, individual cars move between shippers and consignees at a speed no higher than 6 or 7 m.p.h.—only a third of customary truck timing. This slow motion also hurts the railroads, for cars earn money only when they are traveling—



and they travel only 45 miles a day on the average.

Complicated Terminal Movements

Let's look a little more closely at the process of railroad transportation. Suppose a manufacturer in Buffalo has one carload to deliver to a wholesaler in Kansas City. If his private siding adjoins the main line of one of the larger railroads pick-up service may be frequent, but if it is on an outlying spur the switching engine may pass that site only once a day. In any case, the shipper is pretty well committed to giving the initial line-haul to the road that serves his plant. A competing road may give better service, but if the shipper takes advantage of such a routing the originating line will slap on a heavy switching charge of $20 or $30.

In a number of cities, terminal roads are jointly controlled, but all too often each parent road will operate its own switching trains, stoping only here and there, just as the milkman stops at occasional houses along the block, to pick up or set off its own cars. Thus, train movements over the line may be three times as heavy as necessary, while service for each individual road is only one third as frequent as possible.

The loaded freightcar then goes to a district yard of the originating carrier, where it is classified for movement to the principal yard or perhaps, if so routed, to the yard of a competing road. Here the car must be reclassified for its line-haul, and it will be anywhere from six hours to several days after the car was turned over to the railroad before it actually leaves Buffalo. *Many trucks are probably at their destination before railroad cars leave their point of origin.*

Competition for the Line-Haul

Numerous, in fact, almost infinite, combinations of routings exist between any two considerably removed cities like Buffalo and Kansas City. If the shipper at Buffalo does not specify any routing, the originating carrier will naturally "long-haul" itself; that is, the New York Central would carry the car to St. Louis. At such points any one of these roads would turn the car over to one of its established connections for the onward movement to destination. Each road, to get this long haul and a favorable "division" for itself, might haul the car considerably further than the most direct route, and perhaps carry it through congested districts where further terminal delays would ensue.

The shipper has the right, of course, to specify the routing, either to utilize more efficient roads, to avoid congested areas, or perhaps merely to reward roads that give him some business. To win additional traffic many roads maintain solicitors in Buffalo, engaged in calling on shippers and extolling the merits of their particular routes. *Thus, the roads are competing against each other for a dwindling share of traffic, rather than collaborating to offer every shipper the best possible service.*

Depending upon its routing our car may be yarded and classified several times further on its way to Kansas City, and after arrival there may suffer further delays before final delivery upon outlying siding or team track.

The Solution: Large-Scale Mergers

Such inefficiency and delays are no recent discovery. In the era of railroad monopoly these comprised a burden which the carriers were able to afford and shippers were forced to endure, all for the sake of competition. *Today, when the railroads are in a desperate position and their chief competition stems from rival forms of transportation, such overlapping and duplication represent a waste they can no longer tolerate.*

Many economies can be—and have been—accomplished by coordination, the sharing of facilities and various types of joint operation. But this is not enough. The present crisis requires full-fledged, thorough-going merger of many larger railroads into a limited number of major regional systems.

Railroad management, somewhat tardily, has recognized this necessity, and it is probable that the next few years will witness the most radical revision in the nation's railroad map in over half a century.

Mergers Recently Accomplished

Already during the past twelve months as many important mergers have been carried out as in the preceding two decades. Leading off the procession the **Norfolk & Western** and paralleling **Virginian** effected their corporate marriage last December; this was carried out with unprecedented speed, as it invaded no one else's territory and consequently no serious objections were raised during the ceremony.

The proposed consolidation of the **Soo, Wisconsin Central** and **Duluth, South Shore & Atlantic** Roads was ratified very promptly last May, as all three roads were already controlled by the Canadian Pacific, although the necessary approval of the Interstate Commerce Commission is still being awaited.

Also in the West the acquisition of the **Minneapolis & St. Louis** by the **Chicago & Northwestern** has just received the sanction of the I.C.C. This will be an effective although not actually a legal merger, as the St. Louis line, in a practice very unusual for a railroad, has elected to preserve its corporate shell

and look around for some industrial acquisitions.

The most important of the mergers recently consummated was that of the **Erie** and **Lackawanna** Roads, effective on October 17, and creating the country's twelfth ranking railroad in terms of gross revenue. The Erie-Lackawanna consolidation aroused some opposition on the part of labor organizations and communities along the line, but just the same was accomplished in fifteen months from the time formal application was made to the I.C.C., a speedy action for procedures of this type. The **Delaware & Hudson,** originally a partner with these two in a three-way merger proposal, pulled out of the scheme early last year, probably because of its much happier financial outlook.

End-to-End vs. Parallel Mergers

Most railroad mergers will fall rather clearly into either one of two types, the end-to-end or parallel combinations. The characteristics of each are clear from the terms used. In the early days of railroading end-to-end mergers were more general, as small railroads grew into large ones, and large ones extended themselves still further. Mergers of parallel roads were unlikely, not merely because of the very intensive rivalry which then prevailed, but also because they would have been regarded as destructive of competition and contrary to public policy. One major merger of this character that was proposed, between the **Northern Pacific** and **Great Northern** Roads, was, in fact, rejected by the Supreme Court in one of the notable decisions of the trust-busting era.

But today, while end-to-end mergers may still offer advantages, the emphasis is upon the consolidation of parallel roads serving a common territory and sometimes between the same terminals.

This is because the major objectives of present mergers include economy and elimination of duplicating service, rather than penetration of new territory. Parallel-merger economies can be secured specifically by the consolidation of yards and terminals, removal of excess properties from the tax rolls; the elimination of duplicate trains and track; the avoidance of intermediate classification and transfer movements of freight cars; concentration of traffic in longer trains or perhaps, contrariwise, the dispatching of more frequent trains; and the utilization of most favorable routes and grades. All of these should be followed by a reduction in general overhead and more effective traffic solicitation on the basis of the better service available.

Coast Line-Seaboard Presages Major Reshuffling in South

One of the most logical pending mergers is that between the **Atlantic Coast Line** and **Seaboard Air Line** Railroads. Both carriers, as their names suggest, serve very nearly the same territory between Richmond and Norfolk on the north and Florida points on the south. Their junction, which would represent one of the best examples of the parallel type merger and create a new 9,000 mile system, has already been ratified by stockholders of both roads and would be effected by a share-for-share exchange of Seaboard and the issuance of 1.42 shares of the unified company for each Coast Line share. Coast Line itself recently completed a merger with its former affiliate, Charleston & Western Carolina.

Struggle for Louisville & Nashville

Unfortunately, the Seaboard-Coast Line merger is likely to be long delayed. No important opposition exists to this union by itself, but Coast Line has other affiliations that disturb competing roads in the South. In particular, it holds a 34% interest in **Louisville & Nashville,** a major carrier in its own right. Coast Line and L. & N. further control the small but strategic **Clinchfield.**

Competing roads in the South, particularly the Southern and Illinois Central, view the prospect of a giant combination embracing Coast Line, Seaboard and L. & N. with misgivings and have intervened before the I. C. C. to secure divestment of the Louisville as a condition of the merger. A new dispute may then ensue as to whether Illinois Central or the Southern will absorb the Louisville. The latter effected a merger with the Nashville, Chattanooga & St. Louis, a few years ago.

Besides the possible acquisition of a dominant interest in the L. & N., the Southern is already expanding its existing 8,000 mile system by the purchase of the Frisco's 71% equity in the Central of Georgia. It also recently acquired the strategic Interstate R.R., in western Virginia, by successful bid to that road's former sole owner, the Virginia Coal & Iron Co. As the Interstate, always previously an independent line, provided an important connection between the L. & N. and the Clinchfield, the latter roads strongly contested this acquisition, but were finally vanquished.

Untangling of the existing affiliations among Coast Line, L. & N., Clinchfield and several smaller roads will undoubtedly delay the Coast Line-Seaboard merger, but this is so natural that final I. C. C. approval is inevitable. Very substantial economies—estimated at roughly $40 million a year, plus larger initial tax savings on the elimination of duplicate facilities—should derive from this union, and both of these roads are in an attractive investment position.

The Big Baltimore & Ohio Imbroglio

The internecine dispute between **Chesapeake & Ohio** and **New York Central** for control of the **Baltimore & Ohio** is disturbing to all disinterested proponents of railroad merger. This situation was discussed at greater length in the June 18 issue of this magazine. **Briefly, the threatened merger of Norfolk & Western with Nickel Plate, together with the existing close relationship between Norfolk and the Pennsylvania, impelled the major competing roads, Chesapeake & Ohio, Baltimore & Ohio and New York Central, to seek a protective union of their own.**

Unfortunately, this constructive effort soon degenerated into a slugging match between the Central and C. & O. for control of the B. & O. In a curious contrast with its position under the regime of the late Robert R. Young, when its attempt to control the Central was rebuffed by the I. C. C., the Chesapeake is now the reluctant partner in the initially proposed three-way merger.

To be sure, the C. & O.'s change of heart is not without justification. Although Central's net income has recently been only a small fraction of that of C. & O. ($13 million vs. $45 million in 1959) it does enjoy gross somewhat over twice that of Chesapeake. **While a huge gross means little to stockhold-**

Railroads Involved In Current Merger Negotiations

	Gross Revenues 1959 (Mil.)	Operating Ratio 1959	Net Income 1959 (Mil.)	Track Mileage	Traffic Density * 1959 (000)	Recent Price	Indic. Div. Per Share 1960 *	Estimated Net Per Share 1960
Chicago & North Western †	$213.3	85.7	$d3.0	9,284	1,278	15	—	$d4.40
Minneapolis & St. Louis †	21.0	84.9	1.1	1,391	998	32	1.40	.75
Totals	234.3		d1.9	10,675				
Erie R. R. †	154.2	85.0	d5.6	2,215	3,691	6[1]	—	d3.50
Delaware, Lack. & West. †	71.8	87.5	d4.3	926	3,485	—	—	—
Totals	226.0		d9.9	3,141				
Atlantic Coast Line	156.0	80.7	11.8	5,293	1,763	43	2.50[3]	4.25
Seaboard Air Line	161.4	75.7	17.0	4,147	2,420	31	2.00	3.00
Totals	317.4		28.8	9,440				
Baltimore & Ohio	395.1	81.2	14.8	5,917	4,131	27	1.50	1.00
Chesapeake & Ohio	347.6	74.5	45.6	5,122	5,739	58	4.00	5.25
New York Central	689.2	83.7	13.1	10,412	3,065	16	—	1.00
Totals	1,431.9		68.8	21,451				
Chicago, Milw. St. P. & Pac.	242.0	82.1	5.8	19,594	1,331	15	1,50	1.00
Chicago, Rock Island & Pac.	219.4	78.7	10.9	7,535	1,846	21	1.60	2.50
Totals	461.4		16.7	27,129				
Great Northern Railway	254.5	77.4	26.5	8,292	1,891	44	3.00	4.50
Chic., Burlington & Quincy	263,0	79.7	17.7	8,683	1,807	—	7.50	—
Spokane, Portland & Seattle Ry.	26.8	76.0	2.3	935	—	—	—	—
Totals	544.3		46.5	17,910				
Illinois Central	271.6	78.4	15.0	6,464	2,770	30	2.00	3.75
Louisville & Nashville	229.7	79.6	13.4	5,697	2,808	51	4.00	5.00
Totals	501.3		28.4	12,161				
Missouri Pacific	303.4	76.1	15.5	9,456	2,181	37[2]	2.40	7.50
Chicago & Eastern Illinois	36.3	78.4	.4	863	2,697	8	—	d2.00
Totals	339.7		15.9	10,319				
Norfolk & Western	204.9	62.1	51.5	2,745	8,038	94	5.00	8.75
New York, Chicago & St. L.	150.4	71.0	13.2	2,155	4,453	36	2.00	3.25
Totals	255.3		64.7	4,900				
Southern Railway	271.8	67.6	33.1	6,269	2,345	45	2.80	4.50
Central of Georgia Ry.	44.1	83.8	2.3	1,745	1,882	48	1.00	2.00
Totals	315.9		35.4	8,014				
Western Pacific	52.9	77.9	4.0	1,189	2,978	24	1.00	1.85
Atchison, Top. & Santa Fe	633.8	75.3	67.4	13,036	2,762	22	1.45	2.15
Totals	686.7		71.4	14,225				
Western Pacific	52.9	77.9	4.0	1,189	2,978	24	1.00	1.85
Southern Pacific	690.3	78.2	49.2	12,215	3,635	20	1.12	2.25
Totals	743.2		53.2	13,404				

*—Tons of freight carried one mile per mile of road operated.
†—Merger already completed.
d—Deficit.
1—Erie-Lackawanna R.R.
2—Class "A" stock.
3—Plus 1 share of Alico Land Development Co.

ers if it is all dissipated by operating expenses, the control of a large volume of traffic does nevertheless confer a significant bargaining power.

Accordingly, the Central would hardly be willing to join the C. & O. as a distinctly junior partner; the C. & O., on the other hand, naturally hesitates to jeopardize its stable earnings record by allowing absorption into a larger but less profitable road. Thus, the contest between a large gross on the one side and handsome net on the other has terminated in a temporary stalemate. It does not look like either road will win control of the B. & O. in the early future, although in the longer run the three-way merger still looks like a good probability. Meanwhile, the tactics of the two rivals have created an interesting situation, but one that is really discouraging in its absence of more effective railroad statesmanship.

A New Colossus in the West?

But these eastern roads do not occupy the merger negotiation stage by themselves. In the West the impending union of three major carriers, the **Great Northern, Northern Pacific** and **Burlington,** along with several lesser affiliates, promises to create the nation's largest railroad system, easily dwarfing the present record-holder, the 13,036 mile **Santa Fe.** The new system would approximate 27,000 route-miles. The two "Northerns" already enjoy a deserved popularity with investors, while the annual dividend harvest received from the prosperous, jointly-controlled Burlington provides an important plus value. A second affiliate, the **Spokane, Portland & Seattle,** is less remunerative but serves as a valuable traffic feeder. Two Burlington affiliates, the **Colorado & Southern** and **Fort Worth & Denver,** reach as far south as the Texas Gulf Coast, at Galveston.

Present plans provide that each existing common share of both "Northerns" will become a share of the new, merged road, with an equalizing bonus of one half share new preferred for each Great Northern common share. **Although a similar merger was rejected by the Supreme Court back in 1903, in the famous Northern Securities Case, when the two roads were both controlled by James J. Hill, it seems extremely unlikely in the vastly different economic climate existing today that the I. C. C. will withhold its sanction from this merger.**

The Northern Pacific's ownership of important oil properties represented some obstacle to the negotiations, but now that this has been resolved the proposal should be offered for stockholder approval in the very early future. **The two roads have not published estimates of** *(Please turn to page 256)*

BUYING GROWTH STOCKS AT THIS STAGE OF THE MARKET

By FREDERICK B. LYONS

►***Making comparisons between 3 high P/E ratio stocks and 3 sound investment issues that should be scrutinized for purchase at the right buying point***

INVESTING in growth stocks, as many speculators have recently found out, is not necessarily the path to success in the stock market. Growth stocks, or more accurately that class of equities possessing high price-earnings ratios, have been pounded in recent markets, with many issues now only pale imitations of their former high-flying selves. As usual the better quality companies have held up the best, while the second and third rate situations have been sold down heavily. But almost without exception, all issues are well under their postwar tops.

The logical question arises: why do certain stocks sell at extremely high price-earnings ratios, while others never receive market recognition, despite good records? The basic reason why price-earnings ratios vary from company to company is to be found in the rate of per share earnings growth. A company whose earnings are doubling every five years is growing at about 14% per annum. One whose profits are doubling at ten year intervals is only expanding at about 7%, and so on and so forth.

It is obvious how the lofty price-earnings ratios of certain companies have developed when one examines the underlying rates of growth. For instance, the per share earnings of Addressograph-Multigraph have been growing at about 12% per annum, which means that 1959 earnings of $1.61 should double in about six years, under a similar economic atmosphere. By contrast, it should take International Harvester about 15 years to double its 1959 share earnings of $5.10, assuming past trends hold into the future. Considering both possibilities, it becomes fairly easy to understand why Addressograph has sold at a mean price-earnings ratio of 21 in the last five years, compared with about 11 for Harvester.

Key Technical Factors

Other factors, other than the basic growth pattern, often play an important role in determining the price-earnings ratio. For example, the technical situation where a company has a small floating supply of stock outstanding, can lead to fantastic price swings from time to time. It is interesting also to realize that good "tape" action can play its

Comparing Three Companies With High Price - Earnings Ratios and Low Yields With Comparable Companies With Lower Price - Earnings Ratios and Higher Yields

	Number of Shares Out —(Mil.)—	1957 Net Earnings Per Share	1957 Price Earnings Ratio **	1958 Net Earnings Per Share	1958 Price Earnings Ratio **	1959 Net Earnings Per Share	1959 Price Earnings Ratio **	1960 Estimated Net Earnings Per Share	1960 Price Earnings Ratio †	Recent Price	Indic. Div. Per Share 1960 *	Div. Yield %	Price Range 1959-1960
Corning Glass Works	6.7	$2.43	33.6	$2.52	35.1	$3.57	34.2	$3.75	44.5	167	$2.00	1.2%	186 - 89¾
Minnesota Mining & Mfg.	51.0	.78	34.2	.86	36.6	1.25	52.4	1.40	45.0	63	.60	.9	88 - 37⅛
Owens-Corning Fiberglas	6.6	1.36	37.9	1.67	31.1	2.43	32.5	2.35	37.8	89	1.00	1.1	122¾- 61¼
American Tel. & Tel.	214.7	4.33	13.0	4.67	14.0	5.22	15.6	5.65	16.2	92	3.30	3.5	97⅝- 74⅞
Du Pont	45.8	8.48	22.0	7.24	26.6	8.92	26.9	8.75	20.9	183	7.00	3.8	278¾-178¾
Int. Paper	13.3	6.17	15.5	5.46	19.0	6.21	20.2	5.40	17.9	97	3.15	3.2	141¾- 85⅛

*—Estimate of indicated dividend rate.
**—Based on the average high and low for the years.
†—Based on Recent Price.

part in producing the high multiplier; chartists are attracted to thin issues which "act well," regardless of what line of business they are in. It is possible to imagine many speculative situations where a given upward price thrust was almost entirely technical in nature.

There Comes a Time

While ownership of many high multiple stocks has been a rewarding past experience for investors, purchase of some of these issues at current price levels may call for considerable patience on the part of the holders. For one thing, certain stocks with high PER's are looking well into the future and discounting earnings gains for a long time ahead. Obviously a stock selling at 50 times earnings is reflecting a fantastic rate of earnings growth or just plain fantasy. Also, when the multiplier is up in the stratosphere, there is little margin for the unexpected adverse development on the corporate scene. Even a slight slowing in the rate of expansion may lead to apprehension in the market place.

In addition to incurring sizeable market risk in many of these issues, the investor has to be satisfied with an extremely scanty return in most cases. Yields of 1% or less are not out of the ordinary and in a real growth situation the owner is lucky to get a stock dividend.

Looking at it another way, a considerable period of time must elapse before the holder is obtaining a reasonable return on his original cost. Perhaps a better idea of how much distortion has crept into the market place can be obtained by examining the records of several of these high price-earnings ratio stocks and stacking them up against more unromantic but solid equities.

Minnesota Mining, originally a manufacturer of coated abrasives, has diversified its product line in recent years so that abrasive sales are now only about 15% of the total. It is perhaps better known today for its line of pressure-sensitive and gummed tape products. In addition graphic products, chemicals, plastics, electrical and building lines are produced. Individual items such as Thermo-Fax copying machines impart a note of glamour to the product line. While the stock capitalization of 51.6 million shares cannot be termed small, at least 32% of this is closely held. The earnings pattern has been extremely favorable for MMM, with share profits growing at about 16% annually over the last 20 years. A sharp rise since 1947 has reflected belated market recognition of the strong underlying earnings trend. Profits, which have been doubling at roughly five-year intervals, could continue this trend through 1965, especially if a proposed merger with Warner-Lambert takes place.

However, MMM stock, selling at about 46 times projected 1960 earnings, is well above its mean PER of the last five years of about 32. A step-up in the price-earnings ratio to around 45-46 would seem to imply a faster rate of earnings growth than has been experienced. It is extremely doubtful if such an increased pace is in the cards, if for no other reason than the fact that MMM with over half a billion of sales no longer has a small base from which to score wide percentage gains.

Owens-Corning Fiberglas has perhaps a more glamorous product line than MMM since it is in the fast-growing fiber glass field. Present uses for this product are still fairly mundane since about 45% of Owens-Corning's 1959 sales fell into the thermal insulation category. However, new potential uses are developing every day, some of which could be quite revolutionary in nature. For instance, the company has recently announced the birth of a new glass fiber, which, among other things, could be a possible material for rocket motor cases. The long-term trend of earnings growth has been strong, but considerable hesitation has developed from time to time. Of the 6.6 million shares outstanding, about 32% is locked up. Selling at about 38 times possible 1960 earnings, **Owens-Corning Fiberglas is obviously discounting future earnings improvement to a considerable degree. Realistically, the stock at these levels takes on a speculative rather than a growth stock mantle.**

Corning Glass Works is a major factor in the specialty glass industry. At present about half of total sales are in radio, television and other electrical and electronic lines, while only about 25% is in more specialized areas. The trend in the future will be toward larger representation in the more exotic products, reflecting fruits from a heavy research and development program. In addition to internal growth, Corning Glass stands to benefit from its large (32%) stock holding of Owens-

Corning Fiberglas and half interests in Dow-Corning (a producer of silicones) and Pittsburgh-Corning (glass building blocks).

Of the 6.8 million shares of Corning Glass outstanding, over 50% is owned by officers and directors. Earnings growth has been outstanding, with share profits compounding at about 16% annually over the last twenty years. The stock, selling at about 45 times projected 1960 earnings, appears somewhat out of line relative to its mean PER of 31 over the last five years. The problem facing investors with growth stocks such as Corning is what to do with them when they get too rich. The heroic investor who cuts back his holdings in anticipation of buying the stock back at lower prices may discover to his ultimate regret how easy it is to "miss a market."

The potential buyer of this stock, on the other hand, should realize that while Corning is an attractive situation, it is only attractive at a price which bears some relation to the current earnings picture.

International Paper—To point up the contrast between the trio of high price-earnings ratio stocks and stocks which do not appear to be puffed up, a look first at International Paper is in order. Operations of this company, the world's largest paper company, are fully integrated, with 71% of output in the United States and 29% in Canada. Its holdings of timberlands (including leased portions) total some 22 million acres, by far the biggest in the industry. The long-term earnings trend has been quite good, with share earnings compounding at about a 14% rate annually for the last 20 years.

Earnings results in recent years have been none-too-impressive, however, with product price weakness at least partially responsible. However, the company has made extensive capital outlays in recent years and these improvements are expected to begin making a contribution to earnings. Selling at roughly 17 times projected 1960 earnings to yield somewhat better than 3%, International Paper is clearly not an inflated issue by past standards. By coincidence, the stock is selling at roughly the same mean price-earnings ratio of the last five years.

American Telephone needs no description since its mammoth communication operation is well known to investors everywhere. According to the record, growth has been quite slow over the last twenty years; earnings per share have been compounding at about 3%. This would seem to suggest that Telephone's PER should be on the modest side. It is interesting to note, however, that Telephone is selling at roughly 16 times expected 1960 earnings. This compares with a mean PER of 14 over the last five years. Investors have not lost sight of the fact that this giant company's net earnings have been doubling at five year gaps in the postwar period. This is equivalent to about a 15% growth rate. Now if the dilution caused by repeated additions to the equity base will only slow down, the continued rapid growth in profits will produce more impressive per share earnings results in the future. **This, obviously, is what investors who have bid up the shares are banking on in the next few years. It is conceivable that they will be rewarded, but this is by no means assured in view of Telephone's continued heavy capital needs.**

duPont, probably the leading chemical company, has good sales diversification, serving the textile, chemical, transportation, petroleum and food markets. Among its assets is included a 22.4% interest in General Motors which has been both a source of good income and a legal headache. The per share earnings growth of duPont has been quite impressive since 1941, amounting to about 12% compounded annually. As might be expected by this record, the mean price-earnings ratio of the last five years has been 24. It is unusual, therefore, to learn that duPont is selling at roughly 21 times projected 1960 earnings. Apparently the possible divestiture of the GM stock is curtailing market enthusiasm for duPont. It is difficult to see why such a situation should impair the chemical company's excellent longer-range outlook. **On the expectation of continued above-average share earnings growth, without any contribution from GM dividends, the temporary cloud over duPont may actually be a bright opportunity for the long-term investor.**

High Multipliers May Entail High Risk

Turning from the specific back to the general again, it is worth noting the type of risk associated with an abnormally high price-earnings ratio. A lofty multiplier is always subject to a possible change in investor attitude. A good example of this occurred recently in the case of Aerojet-General, a publicly owned subsidiary of General Tire. From a mean PER of 14 in 1955, speculators drove the multiple to 40 in 1959. A new appraisal of the longer-range outlook for this company has apparently taken place since it is now selling at roughly 22 times expected 1960 earnings. Of course, some may claim the shares are extremely cheap at these *levels*, but this remains to be seen.

Incidentally, the outcome of the recent elections may play an important role in determining how much investors are willing to pay for future earnings and how far ahead they are willing to look. During the Eisenhower Administration. the climate for business was regarded as a favorable one even though the Department of Justice was not particularly lenient in allowing consolidations and mergers of certain major American companies. Nonetheless, the investor was satisfied that business was receiving a fair shake and consequently was willing to pay what in many instances was a rich multiplier for earnings. The question now is whether the attitude of the market will change once the full implications of the Kennedy Administration (or that part on which he can gain Congressional approval) are realized. There is, of course, no sign at this juncture that business will be hamstrung by the change in political power but larger and new sources of revenue will be needed if President Kennedy's ambitious plans are to be implemented. This could mean higher taxes both on a direct and indirect basis. For instance, the oil depletion allowance may be cut from its 27½% level. On the other hand, the picture is not entirely bleak since it is believed that the new administration may favor higher depreciation allowances in an effort to spur capital spending by industry. It is possible too, that in an effort to eliminate pockets of unemployment, the troublesome import situation may receive more attention from the White House. If this long range threat to the American economic scene can be somehow softened, this would be an important new plus factor in the business *(Please turn to page 261)*

SATURATION HITS PROFITS FOR HOME APPLIANCE MAKERS

By EDWIN CAREY

- **Too many entrants large and small poaching on the field creates severe sales problem and dilutes earnings**
- **How the individual companies fare ... adjustments being made ... what next?**

★ **"Everybody is getting into the act!"** This was the complaint that producers of refrigerators, room air conditioners, and home laundries were making in 1955. The complaint now is, "They've ruined it for everybody."

Business was good back in 1955 when all this began. There was still the pent-up demand left over from the shortages of the Korean War, and the recovery in consumer buying from the 1954 recession was vigorous. In those days appliance producers were on friendly terms, there was business for everyone, and price cutting was a crude weapon used only occasionally by a few unmentionable relatives. Profit margins were respectable, although not gaudy.

Then the so-called diversification programs began. Moaned one producer of kitchen appliances, "It seemed that everyone suddenly had to diversify and somehow home appliances were a related and logical means of diversification." Even security analysts began to ask almost automatically, "What are your plans for diversification?" The answer that there were no such plans became as unstylish as a bustle on Fifth Avenue.

Companies that had for years been stamping things out of metal for other companies decided that they needed consumer products in their line. What was more logical—and diversification-minded—than to stamp out toasters, rotisseries, and refrigerators? By mid-1957 productive capacity was greatly over-expanded and an economic recession was about to begin.

With a large number of producers trying to keep their operations going, inventories at both the producer and retail levels piled up. "To get your cash out you had to cut prices," says one large supplier, as the struggle began.

"Diversification," instead of denoting purity, took

on the sour odor of poaching on someone else's preserves. Indeed, such new entrants as auto manufacturers, electrical equipment producers, auto parts makers, and even public utilities that branched off into the appliance field now wish they hadn't. Few have made much money at it, let alone show a respectable return on their capital. Now it is apparent to many such producers that concentration on reducing costs in a seasoned and familiar product line is often a more profitable program than diversification.

Growth in Units Shipped But a Decline in Profits

The companies determined to diversify into home appliances back in 1955 were not wrong in selecting air conditioning, for example, as a likely growth field. However, too many of them had the same idea. Profit margins declined as numerous producers scrambled for a market that could not grow fast enough to satisfy everybody.

The sale of room air conditioners, for example, increased from 1,276,000 units in 1955 to 1,800,000 in 1959. Few should be unhappy about an industry sales increase of 41% in five years! Yet the excess capacity for room air conditioners by 1959 was appalling. A leading manufacturer estimated in December 1959 that the industry could double its output of room units if need be with scarcely a dollar spent for expansion.

Other consumer durables have shown remarkable growth in recent years, yet price weakness has persisted. In 1955 2,750,000 power lawn mowers were sold (more than double the 1950 rate) and by 1959 no less than 4,200,000. But with inexpensive rotary mowers now sold through every conceivable outlet, including supermarkets, and even by direct mail, prices fell to rock bottom.

Heavy consumer durables such as washing machines and refrigerators have actually shown a decline in unit sales since 1955, washing machines dropping to 4,201,000 units in 1959 from 4,391,000 in 1955 while refrigerators fell to 3,750,000 from 4,200,000. Here it is not surprising that price cutting has become an industry characteristic. The Department of Commerce wholesale price index of household appliances shows that the average price in 1959 was only 4.6% above the 1947-49 average (although in 1954 it had been 9.6% above) despite an increase in consumer prices generally of over 50%.

The Big Freeze in Refrigerators

There is little doubt but that many producers of refrigerators wish they were not in the business. The increase in brand names that appeared on the market between 1955-57 was accompanied by a 20% drop-off in housing starts beginning in late 1956. Here was a decline in a most important market. Since nearly all existing homes in the U.S. are already equipped with refrigerators, sales depend primarily on new homes and replacement demand. The replacement demand, which accounts for 75% of the market, can be unreliable because, should consumers decide to tighten their purse strings a little, the old refrigerator can usually be made to last another year or two longer. This postponable purchase, according to manufacturers, has an unbearably long life, especially for families who are not style-conscious enough to be susceptible to fancy advertising. By the end of 1959 it was estimated that the market for refrigerators was 98% saturated.

However, 1960 started out with an unbelievably optimistic tone. The end of the steel strike was reason to step up production to an all-out pace in January. Unfortunately, the consumer did not cooperate by buying more, and inventories soon began to pile up at the retail level. By late spring the game began to get rough. General Motors' Frigidaire Division cut wholesale prices by $6 to $40 on its entire line. This was in answer to General Electric's earlier price cuts of $10 to $30 on four of its key models. Nothing more damaging to profits can be conceived than a price cut on top of a previous price cut, or a contest between two giants who account for 40% of the market and who use this method to fight it out. Virtually the entire industry was forced to meet the lower prices. Between January and June prices for refrigerators dropped 20% to 30%, according to two recent surveys. Commented one of the producers who wished he were not in the refrigerator business, "With the present price structure, we lose $20 a unit, but we keep the plant running. If we shut down our losses would double." But what about the consumer—isn't he happy about the lower prices? The answer seems to be, not especially. Retail sales continue to drag despite the lower prices. Apparently even a $40 price cut on a $350 refrigerator is not enough, or else this is one of the years when the old one is working fine.

The two large producers in this field, of course, have a high degree of integration, making their own motors, for example, with a cost saving over others who purchase most of their parts. The automation at the Louisville G.E. plant is also impressive, with the various stages of refrigerator production carefully controlled and keyed into an expensive IBM card control system. While it is unfortunate that all must suffer when the two large competitors put on their brass knuckles, it might be said that the quality of product they offer consumers sets a consistently high goal for others.

The woes of the industry would be even worse except for the trend toward more use of frozen foods and the need for larger freezer space. Automatic defrosting units have done much to create a desire to replace the old refrigerator. The more recent gimmicks of automatic ice cubes and automatic drink dispensers, however, would seem to have a lesser value. The National Appliance & Radio T.V. Dealers Association has begun an intensive advertising campaign to reduce by year-end the staggering 800,000 unit inventory. Their slogan: "Wanted: your old refrigerator."

Leading producers in the field in addition to G. E. and General Motors are Westinghouse; Philco—happier when making radio and T.V. sets; Admiral—also better known for TV sets; Whirlpool—which is more concerned with keeping Sears, Roebuck happy selling it washing machines; Borg-Warner's Norge; American Motors' Kelvinator; and Hupp. With no single major producer specializing only in refrigerators, this appears to be an industry of sidelines.

What About Market Saturation?

As mentioned above, part of the problem in refrigerators stems from the fact that the present market is 98% saturated. According to a survey published in Electrical Merchandising 93.1% of the

21 Companies With Varying Stakes In Household Appliances

	Percentage of Home Appliances Sales to Total Sales †	Net Sales Per Share 1958	Net Sales Per Share 1959	1st 9 Months Net Sales 1959 (Millions)	1st 9 Months Net Sales 1960 (Millions)	1st 9 Months Earning Per Share 1959	1st 9 Months Earning Per Share 1960	Indic. Div. Per Share 1960 *	Recent Price	Div. Yield
Admiral Corporation	Appliances sales 25%	$.58	$1.71	$90.8[1]	$95.2[1]	$.57[1]	$.24[1]	—	11	—
American Motors	Kelvinator division less than 20%	1.55	3.39	688.7[1]	865.0[1]	2.79[1]	2.44[1]	1.00	20	5.0%
Amercan Radiator & S. S.	Heating & Air-Conditioning 25%	1.25	1.80	384.2	362.6	1.21	.78	.80	11	7.2
Arkansas-Louisiana Gas	Heaters and Gas appliances 18%	1.27	1.68	51.8[1]	56.0[1]	.95[1]	.98[1]	1.00	32	3.1
Borg-Warner	Appliances, air-conditioning and building equipment 35%	2.34	4.36	484.2	451.4	2.83	1.96	2.00	32	6.2
Carrier Corporation	Small heating, cooling and air-condit. units for homes 26%	3.27	3.62	195.7	192.0	2.60	1.18	1.60	29	5.5
Chrysler Corp.	Small percentage, not reported.	d3.88	d.62	1,964.3	2,385.6	2.73	2.84	1.00	43	2.3
Fedders Corp.	Room air-conditioners 50%	1.17	1.57	38.3	51.4	1.03	1.82	1.00	17	5.8
General Electric	Consumers products 26%	2.77	3.17	3,142.3	3,053.2	2.16	1.91	2.00	75	2.6
General Motors	Frigidaire and other appliances divisions about 6%	2.21	3.05	8,857.1	9,309.7	2.55	2.45	2.00	42	4.7
Hupp Corporation	Air-condit. and heating 45%	.20	.50	54.8	56.3	.30	.15	[4]	7	—
Maytag Co.	About 90%	2.91	3.92	93.5	83.9	3.07	2.44	2.00	32	6.2
Mc Graw Edison	About 50%	2.04	2.94	131.5	152.0	1.15	1.25	1.40	32	4.3
Philco Corp.	About 60%	.61	1.67	181.3[1]	194.2[1]	.54[1]	.43[1]	—	19	—
Radio Corp. of America	Commercial Manufacturing and service 41%	2.01	2.59	978.2	1,061.0	1.80	1.46	1.00[5]	52	1.9
Siegler Corp.	Heating and cooling equip. 28%	1.36	1.71	21.1[2]	20.2[2]	.50[2]	.40[2]	.40[5]	25	1.6
Stewart-Warner	Heating and air-conditioning small percentage.	1.60	2.40	86.3	82.2	1.77	1.45	1.40	24	5.9
Sumbean Corp.	Almost 100%	3.32	3.80	22.2[3]	29.6[3]	.52[3]	.51[3]	1.65	54	3.0
Trane Co.	Air-conditioning over 50%	2.82	2.36	62.0	75.4	1.58	2.11	.90	66	1.3
Welbilt Corp.	Stoves 60%, air-condit. 25%	.09	.21	18.9	23.8	.11	.12	—	4	—
Westinghouse Electric	Consumer products 28%	2.13	2.43	1,408.3	1,457.2	1.59	1.71	1.20	47	2.5

*—Estimate of indicated dividend rate.
d—Deficit.
†—Approximate.
[1]—6 months.
[2]—1st fiscal quarter ended Sept. 30.
[3]—1st fiscal quarter ended June 30.
[4]—5% in stock.
[5]—Plus stock.

50.6 million wired homes had washers at the end of 1959, a surprisingly high 89.9% had television sets, 72.5% had vacuum cleaners, 96.1% had radios, and only 12.8% had air conditioners. Yet the field of room air conditioners is one of the trouble spots in appliances—where price-cutting has become an accepted industry practice. A room air conditioner, of course, is a luxury appliance that does not have benefit of year-around use. Other luxury appliances that have only a small degree of saturation are dish washers (6.3%), dryers (17.8%), freezers (22.1%), and electric blankets (21.3%). Big appliance makers such as General Electric have branched out into most of these accessories as well as selling a full line of the more important items.

Washing Machines — Still a Big Item

Whirlpool is possibly the leader in the home laundry equipment field, although General Electric and General Motors are also important factors. Philco is solidly committed to this market with its Bendix line. Others include Westinghouse, Borg-Warner, and McGraw Edison.

Maytag is an especially interesting producer in this field, and unique among its competitors. Rather than produce everything from toasters to refrigerators, as so many other companies do, its management has held firm to a policy of specializing in home laundry equipment, although the company does distribute a few related products made by others. Emphasis is on superior quality and a slightly higher price is charged. Since the Maytag machines require far less servicing they are popular with dealers who would rather concentrate on selling than running a repair shop. Customers also usually approve. As the only large producer that sells direct to dealers, rather than going through jobbers, Maytag is very close to the problems of the dealer. The company has turned down offers to tie in with large distributing organizations, as Whirlpool has done with Sears, Roebuck, although unwedded Montgomery Ward could be a large, worthwhile outlet.

It is of interest that, with these policies, Maytag has made life more enjoyable for itself than many of its street-fighting competitors have done. In 1959, despite the disrupting effect of steel shortages due to the strike, the company showed a 22.6% pretax profit margin, a degree of profitability almost unheard of in the appliance field. By contrast its close competitor, Whirlpool, had a pretax margin of 9.8%. Most of the other members of the home laundry field produce washers only as a sideline to other business.

Maytag, known as a short-line manufacturer, produces relatively few models in an attempt to do an especially good job on what it does produce. For years investors have considered this lack of diversification a shortcoming, and have further thought that the company's high profit margins must surely be pulled down in the face of competition. So far, this has not happened. It may be, however, that Whirlpool's *(Please turn to page 258)*

FOR PROFIT AND INCOME

The Record

Political leanings of the average investor are conservative. Thus, it can hardly be happenstance that in Presidential election years since 1912 the stock market recorded some gain between election and the year end after seven out of eight Republican victories but did so in in only one out of seven election years in which a Democrat won. In any event, some year-end rise or rally from the poorest December level is the most realiable of market "habits." It usually does not last long when prospects for business and corporate profits are adverse, as is so in the present instance.

Dividend News

Despite a fair number of individual exceptions, the over-all dividend news is becoming progressively less cheerful. In October there were 102 extras, against 116 a year ago; 68 increases, against 91 a year ago; and 25 reductions or omissions, compared with only 12 a year earlier. Both in number and in dollar total, the November-December year-end extras figure to be under those of 1959, even though they were held down last year as a result of the impact of the steel strike on earnings.

Yield Versus Growth

Some investors need or desire a "good" income yield. But it should never be forgotten that an uncommonly high yield is indicative either of speculative risk or absence of profit growth. That is so of all main types of stocks, including those classed as conservative. An illuminating example is the contrast between Liggett & Myers and Reynolds Tobacco in the cigarette field. The former, now at 83, yields about 6% on a \$5.00 dividend. The latter yields only 3.1%, at 84, on a \$2.60 dividend. But the Liggett & Myers dividend is no higher than it was as far back as 1939 or 1929; and the stock is now over 23% under the market levels reached in both of those years. The buyer of Reynolds even at its 1929 high now has appreciation over 150% and, as a result of numerous dividend boosts, is getting a return close to 7.9% on investment cost. Many other similar examples could be cited.

Too High?

The other side of the coin is

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1960	1959
Beech-Nut Life Savers	Quar. Sept. 30	\$.73	\$.65
General Foods Corp.	Quar. Sept. 30	.68	.61
Kaiser Alum. & Chemical	Quar. Sept. 30	.31	.05
Monarch Machine Tool	Quar. Sept. 30	.20	.10
American Electric Power	12 mos. Sept. 30	2.53	2.38
R. J. Reynolds Tobacco	Quar. Sept. 30	1.34	1.20
Schick, Inc.	Quar. Sept. 30	.32	.10
First Charter Financial Corp.	9 mos. Sept. 30	1.48	1.17
MacAndrews & Forbes Co.	Quar. Sept. 30	.55	.42
Heller (Walter E.) & Co.	9 mos. Sept. 30	2.36	2.01

that indefinite growth is not assured for any company, and that, where good growth is presently indicated, you can easily pay too much for it. Growth gets popular recognition after there has already been a great deal of it. There is more to be said for holding growth stocks that were bought when they were much cheaper than for paying present premiums in new buying, even though prices in most cases are well down from the highs. For instance, Florida Power & Light could have been bought at under 14 times earnings in 1955 to yield 3.7%, against 26 and 1.7%, respectively, now. The 24 times earnings ratio of General Foods is double that at the lowest 1956 price. Bell & Howell sold under 10 times earnings at its 1957 low, compared with 27 times at present. Minneapolis-Honeywell sold as low as 17 times earnings in 1956, against 40 times now. Lily-Tulip Cup could have been bought at less than 13 times earnings in 1956, against 22 times now. In all of these cases and many others the rise in valuations has been much more phenomenal than the growth of earnings.

Revlon

The two top officers of this highly successful maker of cosmetics and toiletries recently arranged sale of 130,000 shares via a secondary offering. As it leaves them with 1,105,760 shares, it was obviously a matter of estate-tax planning, unrelated to company prospects. Why didn't they sell when the stock was nearer its earlier high of 70⅜, against 55 at present? Answer: neither insiders nor outsiders have much chance of guessing a stock's top or bottom. The issue is reasonably priced at less than 13 times likely record 1960 earnings. It is worth holding and has above-average merit for buying on possible further price dips.

Shattuck

This stock was recommended here in July at 15¾. It is currently up nearly 40% at 22. It will take a fairly extended time for improvement in earnings to justify this price, although some moderate further rise is quite possible over the near term. The valuation is around 20 times earnings. Few of the best retailing stocks are selling over 15 times earnings. Take profits at 22 or better. Hold if the issue has reacted appreciably before this comment reaches you.

Bank Stocks

In line with easing money rates and expectation of reduced loan demand during business recession, representative bank stocks fell by an average around 14% from their late-1959 highs to subsequent 1960 lows in a performance not greatly different from that of the general market. But they have stabilized in a narrow range for some weeks and now appear to be among the least risky buys for conservative income accounts. As a rule, operating earnings have held up well or gained slightly in earlier years of postwar business recession, with dividends remaining well covered and secure. Total earning assets will be higher under official expansion of the money supply. Total loans may average little if any under this year's level in 1961. Return on them will be lower, income from increased investments in Government obligations will be higher. Most of the leading stocks are priced at 12 to 13 times operating earnings, with dividend yields ranging from a little below to a little above 4%. There are too many good bank stocks to list here, including some "local" issues which have been gold mines for long-term holders. Among the major New York City Banks, a few of the best stocks are Bankers Trust, Chemical Bank New York Trust, Bank of New York, First National City, Irving Trust, Manufacturers Trust and Morgan Guaranty Trust. Among stocks of banks in other areas, a few of the best are Bank of America, Continental-Illinois, First National of Chicago, First National of St. Louis, National of Detroit and First Pennsylvania.

Automobile Stocks

From the best level in 1955, which was the peak year in car sales, to the early 1960 high, the automobile stock group had a net gain of less than 12%, compared with about 40% for the industrial average. From 1960 high to recent low, from which there has been only a modest rally, the group fell about 30% more than the industrial list. Obviously, it has lost a great deal of its earlier investment-speculative favor. Obviously, the reason is reduced profitability stemming from waning public interest in "fancy" cars and the growing position of compact cars and of other more economical models. It is questionable whether the group has yet put its low behind. Whether it has or not, our belief is that longer-term potentials have become sub-average. This is now a field for cyclical speculation at times, not for investment—and this is not the time for speculation in it.

Shift to Caution

In terms both of the amount of buying on balance, and of increased preference for bonds and defensive income stocks, there was a further shift toward caution in the third-quarter operations of investment companies. That was especially so in the case of closed-end investment trusts and of "balanced" mutual funds; less so, as usual, of mutual stock funds. Favored stock groups on the buying side were principally aircrafts, finance companies, foods, soft drinks and electric and gas utilities. There was considerable selling in aluminum, automotive, rubber, steel and textile stocks. The most favored stocks were American Telephone,

(Please turn to page 262)

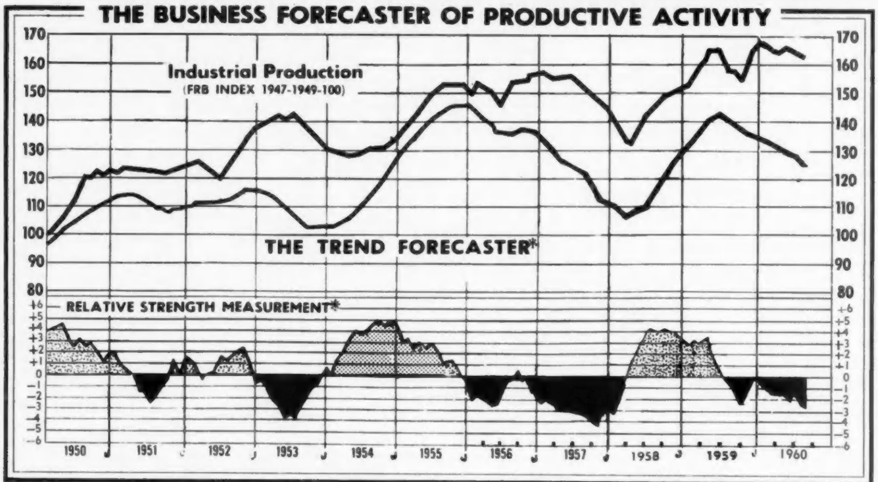
DECREASES SHOWN IN RECENT EARNINGS REPORTS

		1960	1959
Federal Paper Board	12 weeks Sept. 10	$.53	$ .91
Ferro Corp.	Quar. Sept. 30	.53	.99
Filtrol Corp.	Quar. Sept. 30	.45	.74
Granite City Steel	Quar. Sept. 30	.42	.76
Twin Coach Co.	Quar. Sept. 30	.49	.87
Delaware & Hudson Co.	9 mos. Sept. 30	.13	1.46
Glidden Co.	Year Aug. 31	2.90	3.31
Dow Chemical Co.	Quar. Aug. 31	.69	.84
Polaroid Corp.	Quar. Sept. 30	.41	.67
Container Corp. of Amer.	Quar. Sept. 30	.39	.46

the Business

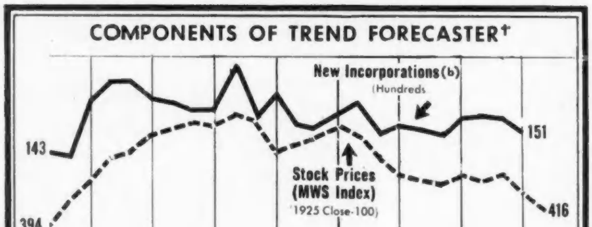
Business Trend Forecaster

INTERESTING TO NOTE — Sharp divergence between industrial output and underlying business trends in early 1960, denoting heavy accumulation of inventories.



* Latest figures are preliminary.

With the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.



(†)—Seasonally adjusted except stock and commodity prices.
(a)—Computed from F. W. Dodge data.
(b)—Computed from Dun & Bradstreet data.

This we have done in our *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of Trend Forecaster) that we have found to most accurately project the business outlook.

As can be seen from the chart, industrial activity in itself is not a true gauge of the business outlook — the right answer can only be found when balanced against the state of our economy. The *Trend Forecaster* line does just that. When it changes direction up or down a corresponding change in our economy may be expected several months later.

The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a strong advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually precedes an important contraction in our economy.

We believe that subscribers will find our Business Trend Forecaster of increasing usefulness both from the investment and business standpoints.

Current Indications of the Forecaster

The components of the Trend Forecaster have remained in an irregularly lower trend this Fall. The important new orders series has recently moved upward, but this improvement has been the result of a heavy volume of defense orders and further gains will depend on policies of the new Administration. Liabilities of business failures have also shown some betterment although the total is still far from satisfactory. Other leading indicators continued to move downward in the latest period. Stock prices fell to a two year low in October, housing starts were off sharply in the latest month, nonresidential construction contracts were lower, hours worked continued to recede, new incorporations dipped and raw industrial material prices were at a ten month low.

The Relative Strength Measure, which summarizes the intermediate trend of the components, was still hovering a little above the minus 3 area and was predicting a further slow decline in business activity. Penetration of the minus 3 level would indicate that a contraction of more serious proportions was imminent.

Analyst

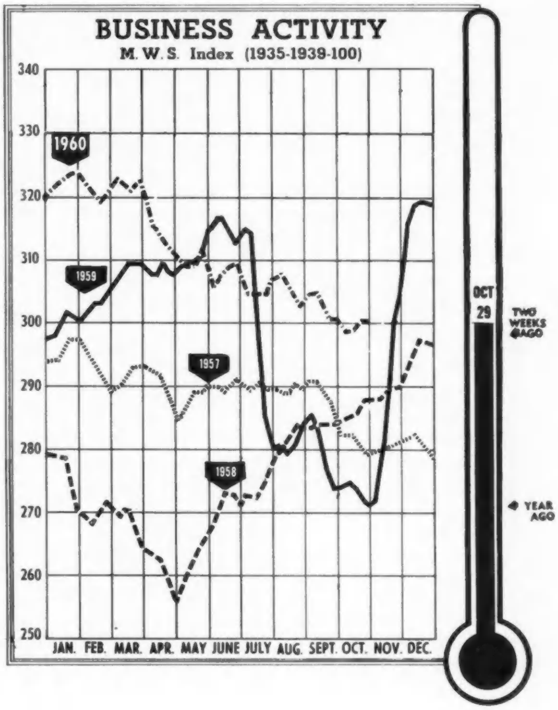
CONCLUSIONS IN BRIEF

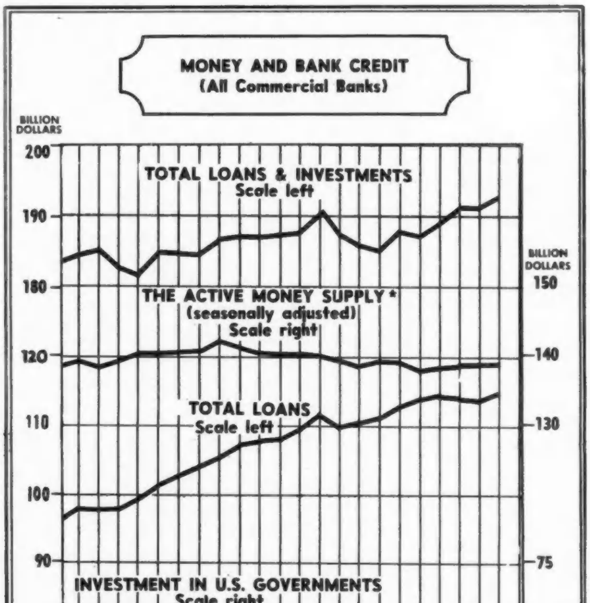
PRODUCTION — Output still falling slowly, led by auto industry which is planning widespread production cuts by year-end in order to reduce record stocks in hands of dealers. One bright spot is electric power where steady growth in the uses of electricity is holding output near record levels.

TRADE — After a healthy rebound in October, consumer outlays are slipping again, with reduced employment reinforcing the cautious mood of the public. Look for further moderate cuts in hard goods during balance of year as consumers work to reduce heavy lead of instalment debt and rebuild liquid assets.

MONEY & CREDIT — Both long and short-term money rates are still easing. Further relaxation can be expected as demand for funds slows down. Cuts in foreign Central Bank rates may induce some foreign funds to return to these shores and will give the Federal Reserve more scope for loosening of credit reins.

COMMODITIES — Further slow erosion of prices has taken place in recent weeks. Price concessions for finished goods to continue as consumer caution mounts but this could be reversed next year if the new Administration follows inflationary policies.





*Demand deposits of all banks plus currency outside the banks.

NOW that the dust of political battle has settled—after one of the closest elections in our history—observers are trying to figure out what affect the results may have on business.

In assessing the returns, it should be borne in mind that although a Democrat is now in the White House and that party has retained control of both houses of Congress, the victors have received no mandate to press forward with radical reforms. On the contrary, the new Congress appears to have a more conservative tinge than it did in the Eisenhower Administration and the next President will find it difficult to implement some of the liberal legislation that was advocated during the campaign. On the other hand, a strong Chief Executive wields tremendous prestige and power and if business waits until his course is clarified, it may affect some areas of the economy in the months ahead.

One sector that will bear watching in this respect is capital spending which is usually sensitive to changes in the political atmosphere. Businessmen are well aware of the important role that labor has played in the election. If they are influenced by doubts regarding the President's impartiality in union-management relations, they may decide to postpone or stretch out capital outlays and appropriations until the outlook is clearer. Defense spending and ordering may also reflect the election results in the near future, but in an upward direction.

There is a good deal of unanimity regarding the need of greater effort in this field and the President

(Please turn to the following page)

Essential Statistics

THE MONTHLY TREND

	Unit	Month	Latest Month	Previous Month	Year Ago
INDUSTRIAL PRODUCTION* (FRB)	1947-'9-100	Sept.	162	165	157
Durable Goods Mfr.	1947-'9-100	Sept.	166	169	158
Nondurable Goods Mfr.	1947-'9-100	Sept.	160	162	159
Mining	1947-'9-100	Sept.	126	128	119
RETAIL SALES*	$ Billions	Sept.	18.0	18.2	17.8
Durable Goods	$ Billions	Sept.	5.7	5.8	5.8
Nondurable Goods	$ Billions	Sept.	12.3	12.4	12.0
Dep't Store Sales	1947-'9-100	Sept.	142	144	144
MANUFACTURERS'					
New Orders—Total*	$ Billions	Sept.	30.4	30.0	30.6
Durable Goods	$ Billions	Sept.	14.7	14.4	14.7
Nondurable Goods	$ Billions	Sept.	15.7	15.6	15.8
Shipments*	$ Billions	Sept.	29.9	30.1	29.8
Durable Goods	$ Billions	Sept.	14.3	14.4	14.1
Nondurable Goods	$ Billions	Sept.	15.6	15.7	15.7
BUSINESS INVENTORIES, END. MO.*	$ Billions	Sept.	93.2	93.3	89.2
Manufacturers'	$ Billions	Sept.	54.8	55.0	51.9
Wholesalers'	$ Billions	Sept.	13.1	13.1	12.5
Retailers'	$ Billions	Sept.	25.3	25.2	24.8
Dept. Store Stocks	1947-'9-100	Sept.	168	169	160
CONSTRUCTION TOTAL—†	$ Billions	Oct.	55.0	55.2	51.8
Private	$ Billions	Oct.	38.3	38.8	37.5
Residential	$ Billions	Oct.	20.9	21.7	21.7
All Other	$ Billions	Oct.	17.4	17.1	15.8
Housing Starts*—a	Thousands	Sept.	1077	1295	1509
Contract Awards, Residential—b	$ Millions	Sept.	1277	1433	1466
All Other—b	$ Millions	Sept.	1841	1863	1592
EMPLOYMENT					
Total Civilian	Millions	Sept.	67.8	68.3	66.3
Non-farm*	Millions	Sept.	53.2	53.3	52.0
Government*	Millions	Sept.	8.5	8.5	8.1
Trade*	Millions	Sept.	11.7	11.8	11.5
Factory*	Millions	Sept.	12.1	12.2	12.1
Hours Worked	Hours	Sept.	39.6	39.8	40.3
Hourly Earnings	Dollars	Sept.	2.29	2.28	2.22
Weekly Earnings	Dollars	Sept.	90.68	90.74	89.47
PERSONAL INCOME*	$ Billions	Sept.	408	408	384
Wages & Salaries	$ Billions	Sept.	275	275	259
Proprietors' Incomes	$ Billions	Sept.	61	60	58
Interest & Dividends	$ Billions	Sept.	42	41	38
Transfer Payments	$ Billions	Sept.	30	29	27
Farm Income	$ Billions	Sept.	16	16	14
CONSUMER PRICES	1947-'9-100	Sept.	126.8	126.6	125.2
Food	1947-'9-100	Sept.	120.2	120.1	118.7
Clothing	1947-'9-100	Sept.	110.5	109.3	109.0
Housing	1947-'9-100	Sept.	132.0	131.5	129.7
MONEY & CREDIT					
All Demand Deposits*	$ Billions	Sept.	110.3	110.3	112.4
Bank Debits*—g	$ Billions	Sept.	89.3	101.4	95.3
Business Loans Outstanding—c	$ Billions	Sept.	32.6	32.0	30.3
Instalment Credit Extended*	$ Billions	Sept.	4.1	4.0	4.2
Instalment Credit Repaid*	$ Billions	Sept.	3.9	3.9	3.7
FEDERAL GOVERNMENT					
Budget Receipts	$ Billions	Sept.	9.0	6.5	8.5
Budget Expenditures	$ Billions	Sept.	6.8	6.8	6.3
Defense Expenditures	$ Billions	Sept.	4.0	4.0	3.8
Surplus (Def) cum from 7/1	$ Billions	Sept.	(1.2)	(3.4)	(1.8)

PRESENT POSITION AND OUTLOOK

may be able to implement his program of increased defense spending without much trouble. Increased outlays here could go far to counterbalance any hesitation that may develop in the field of new plant and equipment.

Looking at business as a whole at this point, we find that most indicators are still pointing downward, although recent weakness has been cushioned to some extent by an increase in incoming orders and by a sharp gain in auto output. New orders have been buoyed this Fall by placement of large defense contracts and further improvement will depend to a great extent on the steps that the new Administration takes in regard to stepping up rearmament.

Auto sales were high in October compared with a year ago, but allowance must be made for the early introduction of new models this year, which gave sales a boost that they did not have in previous Octobers. In any event, auto output, which had risen to a point well above sales, is now being gradually cut back and this readjustment will continue as manufacturers work to reduce top-heavy inventories in the hands of dealers.

Despite the recent strength for autos and new orders, other areas of the economy remain listless. Unemployment rose contra-seasonally in October, according to reliable estimates and industrial output appears to have receded further, with unfavorable effects on personal income. Residential construction is severely depressed, with new housing starts more than 25% under year ago levels, despite easier mortgage rates and Government measures to spur demand. Wholesale prices have been weak in contrast to their trend in previous postwar recessions while the cost of living continues to rise slightly. The dip in prices of finished goods has hurt manufacturers' profit margins and is a prime factor in decisions to make further cuts in inventories. At the same time, the steady rise in consumer costs has cut into the public's buying power and has reduced demand.

and Trends

QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	1960 Quarter III	1960 Quarter II	1960 Quarter I	1959 Quarter III
GROSS NATIONAL PRODUCT	503.0	505.0	501.3	481.4
Personal Consumption	328.5	329.0	323.3	316.0
Private Domestic Invest.	70.5	75.5	79.3	67.5
Net Exports	3.5	2.0	1.2	— 0.2
Government Purchases	100.5	98.6	97.5	98.1
Federal	52.5	51.7	51.8	53.6
State & Local	48.0	46.9	45.7	44.5
PERSONAL INCOME	408.0	404.2	396.2	384.8
Tax & Nontax Payments	50.5	49.9	49.2	46.3
Disponsable Income	357.5	354.3	347.0	338.5
Consumption Expenditures	328.5	329.0	323.3	316.0
Personal Saving—d	29.0	25.2	23.7	22.5
CORPORATE PRE-TAX PROFITS		45.7	48.8	45.3
Corporate Taxes		22.3	23.8	22.3
Corporate Net Profit		23.4	25.0	22.9
Dividend Payments	14.0	13.9	13.9	13.6
Retained Earnings		9.5	11.1	9.3
PLANT & EQUIPMENT OUTLAYS	36.9	36.3	35.2	33.4

THE WEEKLY TREND

		Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	Oct. 29	300.3	300.6	271.0
MWS Index—Per capita*	1935-'9-100	Oct. 29	216.2	216.5	198.2
Steel Production % cap.	% of Capacity	Nov. 5	51.7	54.2	13.0
Auto and Truck Production	Thousands	Nov. 5	171	175	82
Paperboard Production	Thousand Tons	Oct. 29	318	328	332
Paperboard New Orders	Thousand Tons	Oct. 29	300	321	328
Electric Power Output*	1947-'49-100	Oct. 29	272.6	271.9	249.3
Freight Carloadings	Thousand Cars	Oct. 29	621	637	588
Engineerings Constr. Awards	$ Millions	Nov. 3	373	348	252
Department Store Sales	1947-'9-100	Oct. 29	149	157	145
Demand Deposits—c	$ Billions	Oct. 26	60.3	59.7	61.2
Business Failures—s	Number	Oct. 27	331	270	273

PRESENT POSITION AND OUTLOOK

These indications of weakness in the current business picture point to the possibility of further contraction by the time the new President takes office. In pre-election statements, the President-elect outlined measures that he would take to counteract recessionary tendencies, including low interest rates, tax cuts, depressed-area legislation and the promotion of expansion. At the same time, both parties are committed to thoroughgoing welfare legislation, including aid to education, medical help for the aged and increased income for farmers. All these things cost money and assuming for the moment that Congressional approval would be forthcoming, they could result in a sizeable budget deficit in fiscal 1961.

Unfortunately, fiscal experiments are fraught with danger when foreigners hold large claims on our gold and our balance of payments is in the red. In such circumstances, we may find that our field of action is limited and that economic trends may have to run their course if we are to avoid the worse dangers of monetary devaluation and unbridled inflation.

*Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge unadjusted data. (c)—Weekly reporting member banks. (d)—Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. (na)—Not available. (r)—Revised. (s)—Data from Dun Bradstreet. (t)—Seasonally adjusted, annual rate. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	1960 High	1960 Low	1960 Oct. 28	1960 Nov. 4
Composite Average	482.5	410.9	410.9	421.6
4 Agricultural Implements	424.3	346.4	363.7	372.4
3 Air Cond. ('53 Cl.—100)	130.1	105.8	108.4	112.2
9 Aircraft ('27 Cl.—100)	1116.1	861.9	972.4	1005.6
7 Airlines ('27 Cl.—100)	1044.6	736.7	736.7	780.7
4 Aluminum ('53 Cl.—100)	521.3	354.5	370.1	375.3
5 Amusements	286.7	209.3	261.6	270.7
5 Automobile Accessories	531.1	401.0	401.0	406.4
5 Automobiles	157.0	100.0	100.0	101.6
3 Baking ('26 Cl.—100)	39.1	34.9	36.8	37.2
4 Business Machines	1422.6	1159.1	1159.1	1185.5
6 Chemicals	809.6	657.3	665.3	689.4
4 Coal Mining	36.0	27.2	27.2	29.3
4 Communications	234.4	199.9	199.8	202.2
9 Construction	169.2	143.3	143.3	143.3
5 Container	1064.7	824.6	824.6	855.9
5 Copper Mining	347.6	285.3	285.3	291.1
2 Dairy Products	196.2	146.8	185.4	196.2H
5 Department Stores	156.7	135.2	139.5	142.4
5 Drugs-Eth. ('53 Cl.—100)	474.7	360.4	360.4	369.2
5 Elect. Eqp. ('53 Cl.—100)	384.7	310.7	310.7	329.2
3 Finance Companies	755.9	648.8	735.8	742.5
5 Food Brands	504.1	419.3	477.3	386.2
3 Food Stores	270.8	232.1	235.1	237.3

(Nov. 14, 1936 Cl.—100)	High	Low	Oct. 28	Nov. 4
High Priced Stocks	299.9	262.7	263.1	271.3
Low Priced Stocks	653.8	527.6	527.6	539.3
5 Gold Mining	1206.1	810.8	1165.5	1206.1
4 Investment Trusts	170.6	136.5	136.5	139.9
3 Liquor ('27 Cl.—100)	1534.5	1098.2	1113.3	1128.3
7 Machinery	512.8	402.9	413.4	429.1
3 Mail Order	446.1	364.2	364.2	373.3
4 Meat Packing	286.8	223.9	234.9	240.3
4 Mtl. Fabr. ('53 Cl.—100)	208.6	132.4	132.4	134.4
9 Metals, Miscellaneous	399.1	313.3	317.1	332.0
4 Paper	1237.1	867.3	867.3	905.5
16 Petroleum	736.9	609.0	669.2	691.7
16 Public Utilities	393.4	341.6	372.7	376.2
6 Railroad Equipment	99.8	76.9	77.8	77.8
18 Railroads	70.1	49.9	49.9	51.9
3 Soft Drinks	850.1	690.3	813.8	835.6
11 Steel & Iron	464.9	325.4	325.4	334.7
4 Sugar	100.9	63.0	66.7	67.6
2 Sulphur	655.9	563.1	569.3	600.2
11 TV & Electron. ('27—100)	119.4	86.8	86.8	90.1
5 Textiles	233.0	183.3	183.3	183.3
3 Tires & Rubber	255.9	173.2	173.2	181.0
5 Tobacco	216.3	182.5	210.7	212.6
3 Variety Stores	382.1	349.3	349.3	356.6
14 Unclassif'd ('49 Cl.—100)	295.1	226.6	226.6	231.9

H—New High for 1960.

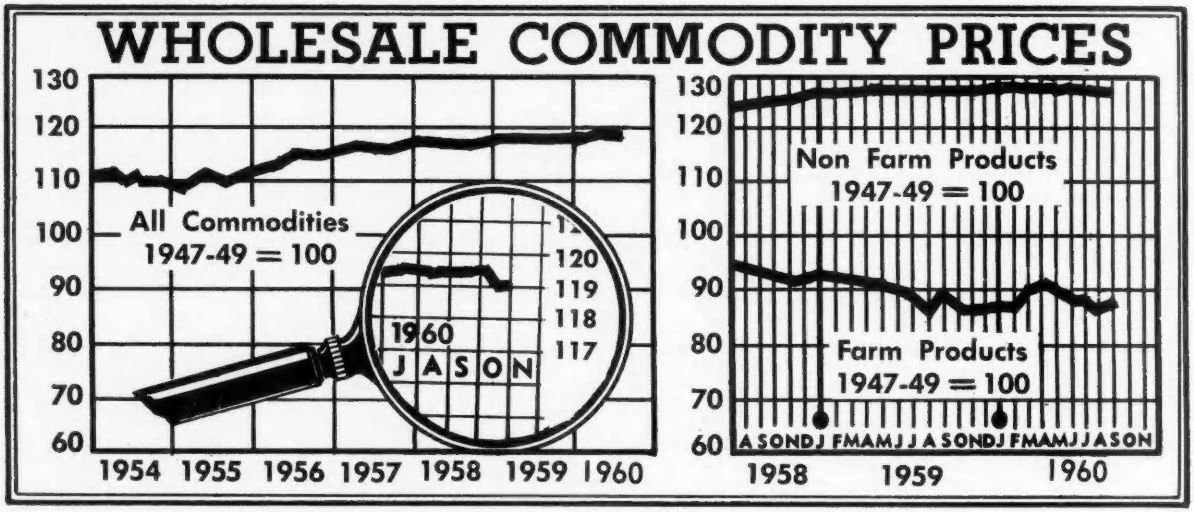
Trend of Commodities

SPOT MARKETS—Prices of leading raw industrial materials continued to give ground in the two weeks ending November 4, although foodstuffs held firm. The BLS daily index of 22 leading commodities fell 0.5% during the period with the raw industrial material component off 1.6%. In the latter category, hides, rubber and steel scrap showed sizeable losses while burlap, copper scrap and wool tops were up slightly.

Among the broad range of commodities that make up the BLS wholesale price index, the nonfarm group was sporadically lower in the second half of October while farm prices were moderately higher. The slow decline in overall prices is expected to continue for several months but a reversal could take place next year if it appears that the new Administration is embarking on an inflationary policy.

FUTURES MARKETS — Commodity futures prices were mostly higher in the fortnight ending November 4, with expectations of a Democratic victory bosstering demand for farm products. At the same time, some imported staples sought lower levels.

Wheat futures moved higher during the period with the May option adding 2 cents to close at 202½. Farmers have been reluctant to sell in recent weeks and this is attributable to income tax considerations and to hopes that a new Administration will help prices. A high level of export demand and recent signs of weakness in the dollar have also encouraged buyers. However, if prices rise above Government support levels, withdrawals of wheat from the loan would be encouraged and act as a brake on further advances.



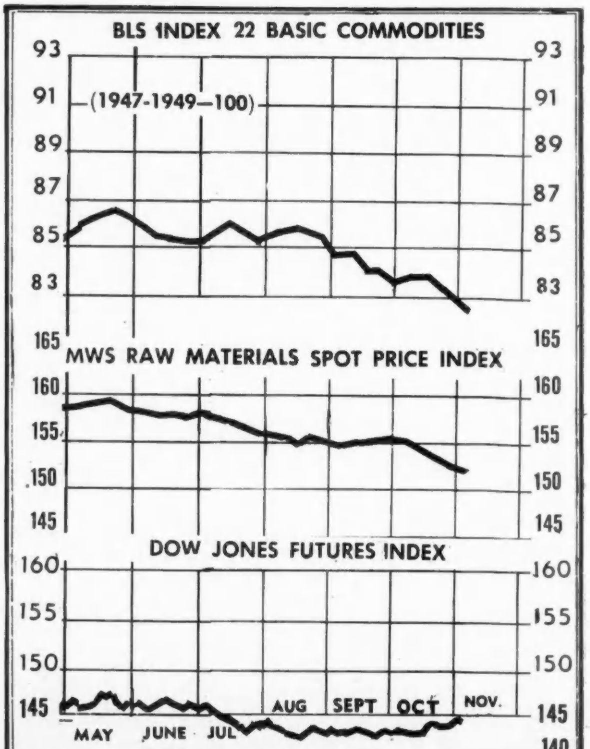
BLS PRICE INDEXES 1947-1949—100	Date	Latest Date	2 Weeks Ago	1 Yr. Ago	Dec. 6 1941
All Commodities	Nov. 1	119.0	119.0	118.9	60.2
Farm Products	Nov. 1	88.2	87.7	85.4	51.0
Non-Farm Products	Nov. 1	127.5	127.6	128.5	67.0
22 Sensitive Commodities	Nov. 4	82.6	83.2	86.4	53.0
9 Foods	Nov. 4	76.1	75.7	74.7	46.5
13 Raw Ind'l. Materials	Nov. 4	87.2	88.6	95.4	58.3
5 Metals	Nov. 4	87.8	88.9	104.0	54.6
4 Textiles	Nov. 4	79.9	78.8	79.6	56.3

MWS SPOT PRICE INDEX
14 RAW MATERIALS
1923-1925 AVERAGE—100
AUG. 26, 1939—63.0 Dec. 6, 1941—85.0

	1960	1959	1953	1951	1941
High of Year	160.0	161.4	162.2	215.4	85.7
Low of Year	152.2	152.1	147.9	176.4	74.3
Close of Year		158.3	152.1	180.8	83.5

DOW-JONES FUTURES INDEX
12 COMMODITIES
AVERAGE 1924-1926—100

	1960	1959	1953	1951	1941
High of Year	148.7	152.7	166.8	215.4	84.6
Low of Year	142.9	144.2	153.8	174.8	55.5
Close of Year		147.8	166.5	189.4	84.1



Answers to Inquiries...

The Personal Service Department of THE MAGAZINE OF WALL STREET, 120 Wall St., New York City 5, N.Y., *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. The service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities at* reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

Investor Asks Advice on Switch from F. W. Woolworth into Allegheny Ludlum Steel

"I have been a subscriber to your valued magazine for many years and your counsel as always proved to be most helpful. I am an elderly widow dependent on income and safety of principal is important. I purchased F. W. Woolworth a number of years ago at a much lower price. Recently, my broker advised me to switch this holding into Allegheny Ludlum Steel to obtain a better yield. I would indeed appreciate your usual careful advice in this matter, as I cannot afford to make an investment mistake. Thanking you again in this instance, as on past occasions."

C. M., Bethlehem, Pa.

In advising the switch mentioned in your letter, we feel that your broker may not have given full weight to your investment objectives of safety of principal and dependable income. It is true, that this switch would improve your immediate income return, but it would increase substantially the risk element and might well result in a lower return later. Further, in selling your F. W. Woolworth bought at a substantially lower price, you would be giving up a position in the leading company in its industry with a long record of established and stable earning power, moderate growth and a well-protected dividend. On the other hand, the purchase of Allegheny Ludlum Steel would involve an investment in one of the smaller companies in an industry that is highly competitive and that necessarily shows fluctuations in profits from year to year. In other words, the current dividend would be less than well-secured and subject to the risk of reduction if or when warranted by circumstances. For these reasons, we would not advise the switch suggested by your broker. Such a step might be taken by a business man able to assume investment risks, but in your own case we do not feel that this change in your holding would be warranted.

Allegheny Ludlum Steel specializes in the production of stainless and electrical steels, although the company also produces tool and other high-alloy lines. About two-thirds of the company's capacity is in electric furnace facilities, and the balance is in open hearth furnaces. Finished steel includes sheet and strip mainly, and also bars, wire, tubing, forgings and castings. The company purchases its raw materials and therefore is not integrated. It has a position in titanium through joint ownership with National Lead in the Titanium Metals Corp.

Sales of $230,660,000 last year were higher than the $201,720,000 volume of 1958, but still below the $285,960,000 peak volume of 1956. Following a 17% decline in the first 6 months of this year, third quarter sales were higher than the strike-depressed level of a year ago. This year to date, there has been a sharp contraction in demand for the company's products. Operations in the steel industry as a whole have been in a declining trend since January and the immediate outlook is not encouraging.

After reaching a peak of $4.12 per share in 1955, earnings declined to $1.52 per share in 1958 and then recovered to $2.92 in 1959. While earnings in the first quarter of this year increased to $1.24 per share from $1.18 a year ago, a sharp drop in profits was experienced in the second quarter, when earnings amounted to only 19 cents per share compared with $2.02 a year previous. In the third quarter of this year, earnings amounted to 17 cents per share and to date the demand for stainless and specialty steels has shown little, if any improvement.

The annual dividend rate is $2.00 per share. The last quarterly payment of 50 cents per share was declared on August 19. It is apparent that the dividend was not earned in the second or third quarters of this year. At the current price of about 36, the stock has declined very substantially from its high of this year and the yield on the $2.00 annual dividend is about 5.5%, reflecting the element of risk in this issue.

F. W. Woolworth operates the largest chain of variety stores in this country. The company also owns stores in Canada and, through subsidiaries, operates re-

(Please turn to page 264)

A New Day For The Rails Through Large-Scale Mergers?

(Continued from page 241)

the expected economies, but this should be one of the most productive mergers in sight. The systems involved are so extensive, however, that it will be a matter of years before all planned physical coordination can be completed.

A Battle for Western Pacific?

Although the two "Northerns" are not as closely competitive with other transcontinentals as many of the more closely-spaced eastern carriers are with each other, other western systems can nevertheless be expected to initiate protective merger proposals of their own. The first of these presages a contest between two major systems for control of a third line, closely comparable with the Central-C. & O. rivalry in the East.

To an entirely unsuspecting investment community 12,000-mile **Southern Pacific** recently announced its ownership, through a subsidiary, of 10% of **Western Pacific's** outstanding stock, and it simultaneously applied for I.C.C. permission to control the latter road. But within a few days this move was challenged by rival, 13,000-mile **Santa Fe,** which claimed 20% control of Western Pacific. Santa Fe also topped SP's bid to Western Pacific stockholders, with a tentative offer of 1¼ shares of its own for each Western share, vs. the share-for-share exchange suggested by SP. On the basis of current market quotations the latter offer is clearly inadequate.

A Southern Pacific-Western Pacific merger would be of the parallel type, as the latter road, the last of the transcontinental lines to be built (completed in 1909), closely follows the old Central Pacific, now a branch of the SP, from the Salt Lake area to central California. These two lines have already for many years, in fact, practiced coordination in the form of paired track operation across the Nevada desert.

In this case, nevertheless, geography would seem to favor a Santa Fe-Western Pacific hookup. Unlike the situation of many closely paralleling lines in the East, both the Western Pacific and the Central Pacific are primarily "bridge routes," delivering traffic between terminals, but originating relatively little en route. Accordingly, opportunities by merger for the elimination of duplicate facilities are relatively slight. Moreover, Santa Fe and Southern Pacific are both already such vast systems that the preservation of competition between them remains a stronger need than it would be in the East. The two roads generally follow each other closely, although SP does penetrate both the Northwest and the Gulf Coast area, while the Atchison reaches both Chicago and the West Coast over its own rails. The SP also participates, by interchange with the Union Pacific at Ogden, in the central route. **It would seem to be in the better interest of shippers to give the Santa Fe a central route as well, rather than turning both of the central transcontinentals over to the S.P.**

As a short line, by western standards, the Western Pacific has been obliged to develop close relationships with other railroads to protect its traffic, and its logical affiliation has been with the **Denver & Rio Grande Western.** With this mountain-penetrating line it has, in effect, established a single through route, operated in close competition with the Union Pacific and Southern Pacific. Several lines (the Burlington, Rock Island and Santa Fe) furnish reliable connections east of Denver and Pueblo for the Rio Grande, but if the Western Pacific should enter the Santa Fe camp it seems probable that the Rio Grande would ultimately follow, as it would then provide a connection between eastern Colorado and Salt Lake to complete a second Santa Fe transcontinental line.

Other Mergers in Sight

Consolidation of major railroad systems, involving the determination of possible economies, the appraisal of the relative interests of stockholders of the combining roads, the opposition of competing roads which see established traffic patterns threatened, the concern of labor to protect its jobs, and the satisfaction of public authorities, is always a protracted and difficult task. Thus, some of the mergers just described, although all of them are relatively far advanced, may not yet be completed for a matter of years. Nevertheless, railroad merger is going to be an intensely contagious affair. This means that the fulfillment of each important merger will provide a strong stimulus to many more, and that obstacles that were formerly considered formidable (like Northern Pacific's oil interests) will somehow be settled in the face of the competitive threat of rival mergers.

Other mergers that are in an early discussion stage include **Milwaukee** with **Rock Island, Missouri Pacific** with **Chicago & Eastern Illinois** and **Lehigh Valley** with **Pennsylvania.** Other medium size roads—**Chicago & Great Western, Monon, Missouri—Kansas-Texas-Florida East Coast** and so on—will also find independence increasingly difficult and will ultimately have to seek affiliation with larger neighboring carriers.

The Successful Norfolk & Western and Virginia Merger Pays Off

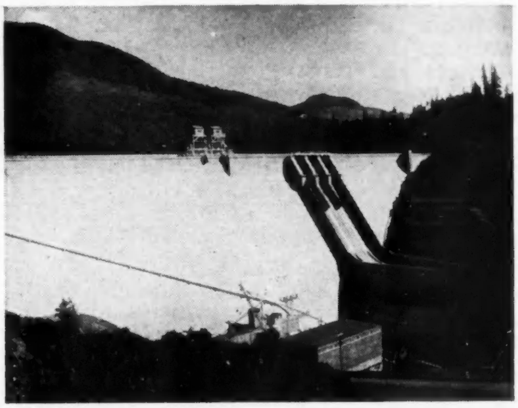
In few cases will it be possible to realize maximum economies from consolidation as rapidly as has been done by the **Norfolk & Western** and **Virginian,** which came together a year ago. Here, savings in excess of $12 million annually were very quickly achieved. The conditions on these two coal-carrying roads were peculiar however, and the problems largely physical. Complicated traffic relationships with shippers and other roads were not involved.

Just the same, merger offers the hope of substantial and early economies in nearly all carefully conceived plans, and it will be in the interest of investors to support most merger proposals.

It is also to be hoped that management will avoid expensive and delaying struggles between roads, of a character more suited to the era of Drew and Gould, but will rather exhibit a spirit of healthy compromise. The roads must be made aware, as some of them do not yet seem to appreciate, they that are now competing not primarily with each other but with other forms of transportation.

Of course, large-scale merger will not be a panacea for all the railroads' problems. But it will provide a very much stronger foundation for the attack upon these problems. END

PUGET POWER . . . 1960 GROWTH REPORT



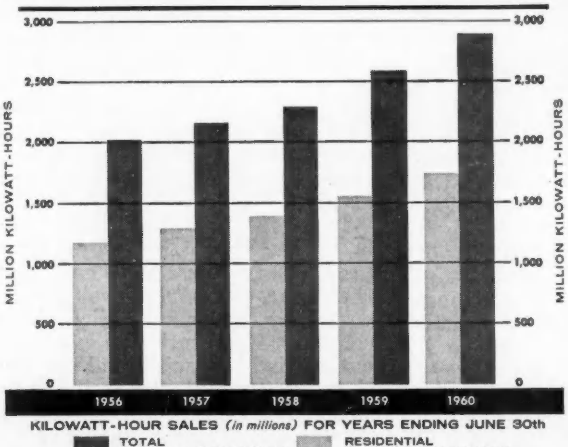
PUGET GENERATING CAPACITY UP 81.5% IN FOUR YEARS. Above is Puget's new Upper Baker Dam which generates 103,000 kilowatts of power. This project is completely automatic and self-operating; the only manpower needed is for maintenance. Through our own hydro projects and long-term purchase agreements with others, we expect to have sufficient power to meet a peak demand that probably will reach 1,200,000 kilowatts by the mid-1960's.

"GIRAFFE" TRUCKS IMPROVE EFFICIENCY. Puget's new aerial lift equipment takes men up to 45 feet, helping to reduce pole climbing and to speed overhead installation and maintenance. New equipment and methods have helped the Company serve more customers yearly with fewer employees per customer.

GENERAL OFFICE BUILDING. This modern building symbolizes the new look of Puget. In the past five years we have opened 36 new office buildings, line headquarters and service buildings to meet the growing demands of the 820,000 people in our service area.

EXECUTIVE TEAM. The Puget Power management team (average age is 50; average years of utility experience, 24) recently was photographed at the opening of new executive offices in the Washington Building. Seated from left to right: J. E. Anderson, treasurer; E. A. Fontaine, vice president; L. E. Karrer, vice president; J. H. Clawson, president; L. A. Williams, vice president; R. F. Plymire, vice president; H. P. Forman, vice president; Ralph Davis, secretary; and F. W. Kimball, vice president.

RESIDENTIAL SALES GIVE SOLID BASE TO GROWING TOTAL



KILOWATT-HOUR SALES (*in millions*) FOR YEARS ENDING JUNE 30th

PUGET SOUND POWER & LIGHT CO.
1400 Washington Building • Seattle

PUGET POWER

Saturation Hits Profits For Home Appliance Makers

(Continued from page 247)

tie-in with Sears, Roebuck should be regarded as a more valuable asset suggesting perhaps a more rapid sales growth and the opportunity, at least to somewhat increase its existing low profit margins. However the present stage of the business cycle does not yet suggest that purchase of appliance stocks is warranted.

Comments on Selected Appliance Makers

American Radiator & Standard Sanitary (11). As a leading factor in heating and plumbing equipment, as well as air conditioning, this company also has a strong foreign position in eleven countries. An anti-trust consent decree has ordered the sale of its Youngstown Kitchen Division, which brings no tears since it has been a consistent money-loser. The sale of these assets may bring about $20 million for profitable investment, and earnings should look better with some of the red figures eliminated.

A lift in housing starts—a trend which may now be under way with government help—would be a direct help to the company. The stock seems to have discounted all conceivable bad news in selling down to near its 10-year low. A better than 50% capital gain potential is apparent if the stock can merely get back to its 1959 high of 18½, still far below the record high of 27 achieved in 1955. The company has a strong financial position with a current ratio of better than 3.5 to 1. Even so, this deflated stock should be considered only a business man's risk and purchased with the thought that the dividend will in all likelihood be reduced, a fact probably discounted in the price, and that 1960 earnings may be no more than $1.00 compared with last year's $1.80. Several financial firms favor this as a speculation, one of them aptly pointing out that during the last 10 years purchase of the stock at around 12 at various times has usually resulted in a substantial capital gain. Perhaps history will repeat.

Arkansas Louisiana Gas (32). This natural gas company serving Arkansas, Northern Louisiana, and East Texas has diversified to such an extent that natural gas earnings now account for only about 39% of total net. The company also manufactures and sells gas air conditioners, gas heaters, gas lights and signs, and even period furniture, fiberglass boats, horsedrawn buggies, and harness. (These items make money even though a common denominator among them is not apparent even to a natural gas specialist.) Earnings are officially estimated at $1.70 for 1960 vs. $1.68 in 1959, and prospects for 1961 are enhanced by completion of a new natural gas pipe line in Arkansas. Acquisition of Consolidated Gas Utilities broadens the marketing area to Oklahoma and Kansas. Prospects for growth would seem to stem more from natural gas than increasing the sale of appliances and its other "well diversified" activities.

Borg-Warner (32). About 35% of the business is in auto parts, where clutches and automatic transmissions are important. While the company sells fewer automatic transmissions for compact cars, it recoups this loss on the higher demand for clutches. The appliance operation, primarily air conditioning and refrigeration equipment, is of slightly lesser importance than automotive parts while defense business, specialty steels, and agricultural machinery parts make up the balance. President Ingersoll recently estimated 1960 earnings at $3.00 per share vs. an earlier estimate of $4.25 and last year's results of $4.36. Norge appliances have not helped matters much this year, although he sees hope next year for some recovery in the York Air Conditioning Division. Longer term optimism stems from possible use of automatic transmissions in trucks and the new dry cleaning machine to be put on the market this spring.

Carrier Corp. (29). Most analysts agree now that Carrier, the largest producer of air conditioners, made a mistake when it purchased Elliot, producer of electrical equipment and steam turbines. It paid a top price just before its earning power practically evaporated. Be that as it may, where do we go from here? The company has an unfortunate labor situation with the United Steel Workers in Syracuse, and even slightly higher wages at the company's multi-story plant there will certainly not help in the light of stiff competition. The heavy loss in the second quarter when most of the labor trouble occurred justifies only the hope that the $1.60 dividend may be narrowly covered for the year ended Oct. 31, 1960, the payment having already been cut a few years ago from $2.40. In fiscal 1959 the company earned $3.62.

General Electric (75). Household appliances of this giant company, which had total sales of $4.5 billion in 1959, account for 25% of total sales and cover every conceivable appliance from electric frying pans to refrigerators. The slow demand for major appliances and the depressing effect of lower prices have helped in a real way to dampen this year's earnings prospects which, with the effects of a strike, indicate that 1960 net may fall 20% short of last year's $3.17. Down somewhat from its 1960 high, the stock continues to be a good long-term investment.

McGraw Edison (32). The August acquisition of American Laundry Machinery for 817,613 shares put the company solidly into the commercial laundry field. Consumer appliances include power tools, home laundry equipment, fans, toasters, as well as air conditioning equipment, the brand names Toastmaster, and Tropic Aire being well known. Nearly one half of sales consists of equipment sold to public utilities for electric transmission. This business has done well, offsetting some drop in appliance earnings and suggesting that 1960 net may equal last year's $2.94, which is adjusted to include the merger.

Philco (19). Home appliances include radio and TV sets, refrigerators, home freezers, and air conditioners as well as the distribution of automatic washers, dryers, and electric ranges made by others. Consumer lines accounted for about 66% of total volume in 1959 and electronic activities 34%. The poor appliance market has hurt earnings this year, as have development costs for the new Philco 2000 computer. Currently the earnings outlook is bleak with final net per share expected to be well below last year's $1.67. Reflecting this,

(Please turn to page 260)

GLIDDEN REPORTS FOR 1960

Financial Highlights from The Glidden Company 1960 Annual Report

Net sales	$197,490,831
Income before taxes	$13,638,356
Net income	$6,690,356
Per share	$2.90
Dividends	$4,620,700
Per share	$2.00
Depreciation and amortization	$6,959,971
Per share	$3.01
Expenditures for plant and equipment	$8,764,000
Working capital	$59,721,934
Current ratio	4.97 to 1
Shareholders' equity	$92,846,742
Per share	$40.18
Number of shareholders	20,969
Number of employees	6,151

You are invited to write for a copy of The Glidden Company 1960 Annual Report

THE GLIDDEN COMPANY

creating profit opportunities for business and industry with

PAINTS • FOODS • CHEMICALS

QUALITY Glidden PRODUCTS

The Glidden Company
Union Commerce Building
Cleveland 14, Ohio

(Continued from page 258)
the stock at below 19 is selling at one half its high of earlier this year.

Siegler Corp. (25). About two thirds of the volume comes from military and industrial electronics, particularly amplifiers, where the company has made great strides in recent years. The consumer line of radio and phonograph sets has done unusually well with the expansion of distribution outlets, the Olympic line of TV sets showing a gain of 25.7% and radios 35.8% for the year ended June 30, 1960. The stock, near its 1960 low vs. a high of 43, suggests the feeling that earnings growth may plateau out for a year at least, with added competition in appliances and perhaps less profitable government work in prospect. It appraises fiscal 1960 earnings of $1.71 at 14.6 times. In fiscal '59 the company reported $1.36. Merger with Jack & Heintz (missile and aircraft components) may help earnings per share but commits the company even more to defense work. Over the long term, prospects in electronics appear favorable for Siegler.

Sunbeam Corp. (54). Unlike most appliance producers Sunbeam expects to show record earnings this year. Sticking to its last, like the successful shoemaker, the company has done well with small appliances. The brands Mixmaster, Coffeemaster, and Shavemaster are well established, and the company does a good job with automatic toasters, electric clocks, and frypans. Its entry into the limited electric lawn mower field and in vacuum cleaners were only slightly out of character. In April the company acquired John Oster Mfg. Co. for 230,000 shares, adding about $35 million to its sales volume of roundly $130 million. This puts the company into the beauty and barber supply field and also gives it an established electronics division with government sales. The company continues as one of quality and able management. The shares priced at around 14 times earnings have good long term prospects.

Westinghouse (47). As second largest producer of electrical equipment the company derived about 28% of total sales from consumer products, largely appliances. Here, too, margins have been under pressure from lower prices received this year. However, a very good first quarter will help this year, and unlike G. E., nine months net was ahead of last year ($1.71 per share vs. $1.59). Final 1960 earnings may equal last year's $2.22, excluding a 1959 special credit of 21 cents. The shares continue to have long term potential. END

The $78.5 Billion We Spent In Foreign Aid

(Continued from page 237)
should do all it can to convince the recipients of such aid that an explosive population if not checked, will cancel out all economic gains.

Foreign Aid Efforts Should Be Concentrated, Not Dissipated

The writer would also suggest that we should call our shots in the field of foreign aid, rather than spread what dollars are available thinly over a whole group of countries. Certain nations in the underdeveloped world are incomparably more important to us than others, and given an amount inadequate for all demands it is only sensible for us to concentrate these sums so as to have the greatest effect. *India* and *Brazil* would be two obvious candidates for preferred status, but beyond that a study should be made to ascertain just what is the strategic, political and economic importance to us of each of the present aid recipients. The results might be most instructive. Other nations should be encouraged to join with the favored ones in economic groupings, so as to share in the aid, as well as creating larger markets for the free passage of goods, services, capital and manpower.

Finally, it must be realized that foreign aid is a weapon in the cold war. It is one of the most effective weapons that we have available to us, and one which the Soviets cannot hope to match. We must use this aid as part of our strategy, in a much more systematic way than we have thus far. Nevertheless, even if we were to double or triple the amount of aid which we are now sending abroad, the effects would be negligible, if we do not

also demonstrate to the world that we are and will remain a strong, proud and hard-working people, worthy of respect, if not of love. Our policy-makers would do well to study the history of British diplomacy during the nineteenth century. They would then find that the British were not loved, and did not care to be loved. But they were respected, and they kept that respect as long as they kept their own self-respect. END

Buying Growth Stocks At This Stage

(Continued from page 244)

picture. Thus, while it is not clear whether the actual import of the new administration will be unfavorable, the burden of proof will be on the Democrats to show that they are not the party of anti-business. Until they actually demonstrate that business can thrive under their control, investors may be less willing to pay high multiples of earnings than in the past.

Thus the investor who chooses to completely ignore yardsticks of value and attempts to buy stocks by "ear" may be sadly disappointed. However, as indicated by the few examples, there are many good values to be found throughout the list selling at price-earnings ratios which are reasonable by historical standards. For those who persist in chasing the popular speculative favorites, nothing else can be said but "caveat emptor"—let the buyer beware! END

Gauging The Business Outlook By Company Backlogs

(Continued from page 231)

able to continue operations at a profitable level until orders swing upward again.

When this will occur is impossible to predict, but the heavy liquidation of inventories since the beginning of the year, coupled with a generally high level of sales, suggest that restocking is bound to begin soon. When it does, order backlogs will be

among the first indicators to rise.

The significance of such a turn can be fully appreciated only when it is realized that the downtrend in industrial production so far has been concentrated in iron and steel. Since the heavy industries are big users of the output of the mills, even a mild rebound in ordering should trigger enough of an upturn in steel activity to reverse the decline in total production. The present situation may persist into the first and second quarters of 1961, but it is unlikely to go further. END

For Profit and Income

(Continued from page 249)

Phillips Petroleum, Martin, North American Aviation and Texas Instruments. There was heavy selling of Merck, International Paper and Montgomery Ward. Opinion on oils remained mixed, with a balance of buying in some, of selling in others.

Significance Of The Election

(Continued from page 222)

but found World pressure forcing him to make the attempt without any advance agreement.

Khrushchev can be expected to intensify the pressure for a Summit, changing his tune from polite invitations to stern demands as time goes on. He will seek to convince the rest of the World that the United States, by refusing to agree to another futile Summit attempt, is resisting his efforts to lower tensions.

Kennedy has pledged to stand as firm as Eisenhower did on Berlin and Germany. The problem will be how to do this and make it clear to the World that the American position is based on principle and is not—as the Reds will charge—obstruction of a solution.

The new President must make an early decision on whether to try once more to negotiate a nuclear test ban with the Russians—who still resist adequate inspection arrangements to safeguard against small bootleg blasts—or resume the U.S. program of underground testing.

He also must try to get stalled disarmament negotiations with the Communists going again. He cannot take an attitude differing very greatly from that of the Eisenhower Administration, which found itself thwarted by the Reds' refusal to agree to any kind of a police system to insure that the agreement was being kept.

Dealing from Strength

Kennedy appears to believe that the foregoing and all other negotiations with the Communists will go better for the United States if the Administration is negotiating from a position of greater strength. For that reason he is committed to increased defense expenditures. He may want to lay out the stepped up defense program before he undertakes talks with the Communists.

The question of national strength is one part of the "prestige" issue upon which Kennedy hammered so hard during the campaign, holding that the United States was suffering continuing diminution of stature under the Republicans.

The Campaign

In retrospect, it is obvious that Nixon made two major campaign blunders which cost him enough votes to have won the close election.

His first mistake was to agree to the series of televised debates with Kennedy, apparently on the assumption that he could show the young Democratic candidate up as an immature political adventurer without any real grasp of issues. This gave Kennedy hours of free Television time, on a basis of equality with Nixon, and made the Massachusetts challenger as well known nationally as Nixon had been.

In addition, it soon became apparent that Kennedy was well able to hold his own in any confrontation with Nixon. If anyone suffered by the comparison, it was Nixon.

The second major mistake Nixon made was in falling into the trap Kennedy laid for him on the "prestige" issue.

Nixon let Kennedy lay down all the ground rules on this one, never once demanding that "prestige" be defined or some effort be made to relate the word to power, influence, respect, fear or

(Continued on page 264)

(Continued from page 262)
the various other components of the term.

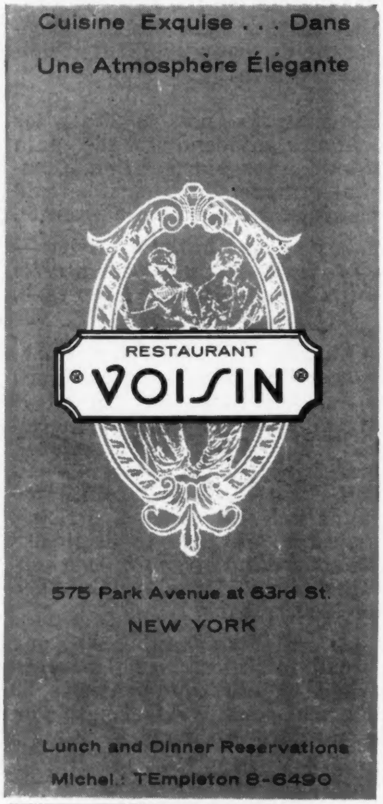
Instead, Nixon simply made the flat assertion that U.S. "prestige"—whatever that was—had never been "higher," while that of the Communists was never lower. By letting himself become trapped in such an obviously unsupportable position, Nixon lost badly. The argument actually besame irrelevant in much of the context.

Some observers believe that the unprecedented use of television in the campaign, with emphasis on the man and his "image" rather than his political party, may have signalled the beginning of the end of the two-party system in this country. Whether this is true or not, new elements certainly were injected into the technique of campaigning.

Kennedy's skillful campaign for the Presidency, beginning long before he actually entered the Democratic state primaries, probably will be studied for decades as a model of how to go efficiently about the business of running for President in a well-organized manner.

Now that the campaign is successful, Kennedy has his opportunity to prove that he was the man the country needed to reach "new frontiers."

A glance at the complex foreign and domestic responsibilities he is assuming can have nothing but a sobering effect. END



Answers to Inquiries . . .

(Continued from page 255)
tail outlets in Great Britain and West Germany.

In the year 1959, sales increased to $916,800,000 from $864,600,000 in 1958. Earnings have shown marked stability in postwar years, with fluctuations very narrow. However, in the year 1959, earnings increased to $4.03 per share from $3.34 in 1958. Last year, dividends received from foreign subsidiaries were substantially higher than in 1958 and this accounted for the greater part of the gain in earnings.

In the first 6 months of this year, reported earnings increased to $1.60 per share from $1.44 a year ago. Although operating profits were somewhat lower, this was more than offset by higher dividends from the British subsidiary. With domestic sales in a rising trend, indications point to a moderate increase in earnings this year over the $4.03 per share reported for 1959. The annual dividend of $2.50 per share is well secured.

At the current price of about 69 the stock yields approximately 3.6%. While this cannot be viewed as a generous return, it is nevertheless a well-assured yield. The current annual dividend has been paid each year without interruption since 1949 and, as your stock was purchased at a substantially lower price, the return on your original investment is probably more than the current yield. END

The Trend of Events

(Continued from page 216)
type of government, by putting Republicans in important posts, as would be customary abroad under a parliamentary form of government. His retention of Allen Dulles, and the hint he has thrown out of special appointments for top-ranking Republicans seem to point in that direction.

What the "deserving" Democrats would think of such a procedure is another question. Kennedy's announcement that he would make no firm decision on important posts or Cabinet appointees until after Thanksgiving, seems to indicate that he may make his plans only after he has talked with Vice President-Elect Lyndon B. Johnson, who intends to be a strong man in this regime, and other top-ranking Democrats, who would be keenly disappointed if their power was to be curtailed.

The situation becomes increasingly interesting with every passing day.—**Thursday, November 10th.**

Now is a strategic time to study your

Investment Progress

Now is the time to take a "hard look" at the progress of your investments — in light of the advance of 130% in the general market since September 1953 — the gain of 40% since October 1957, and the 17% decline in the first 9 months of 1960.

Some investors who test their lists honestly find that their results have been impaired by holding securities for unsound reasons:

. . . *because they are averse to taking profits which incur taxes, even on overpriced issues —*

. . . *because they dislike taking a loss even in weak stocks —*

. . . *because they are worried over finding replacements — and often because they procrastinate.*

***If you are not fully satisfied with your investment progress,* may we suggest that you consider the strong protection and advantages of Investment Management Service, which has earned the renewal of practical minded clients for 10, 15, 20 years and longer.**

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Our first step in serving you is to make a detailed report—analyzing your entire list—taking into consideration income, safety, diversification, enhancement probabilities—today's factors and tomorrow's outlook.

Issues to Hold and Advantageous Revisions:

Definite counsel is given on each issue in your account . . . advising retention of those most attractive for income and growth . . . preventing sale of those now thoroughly liquidated and likely to improve. We will point out unfavorable or overpriced securities and make substitute recommendations in companies with unusually promising 1960 prospects and longer term profit potentials.

Close Continuous Supervision of All Holdings:

Thereafter—your securities are held under the constant observation of a trained, experienced Account Executive. Working closely with the Directing Board, he takes the initiative in advising you continuously as to the position of your holdings. It is never necessary for you to consult us.

When changes are recommended, precise instructions as to why to sell or buy are given, together with counsel as to the prices at which to act. Alert counsel by first class mail or air mail and by telegraph relieves you of any doubt concerning your investments.

Complete Consultation Privileges:

You can consult us on any special investment problem you may face. Our contacts and original research sometimes offer you aid not obtainable elsewhere—to help you to save—to make money.

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We keep in mind the tax consequences of each transaction and help you to minimize your tax liability. (Our annual fee is allowed as a deduction from your income for Federal Income Tax purposes, considerably reducing the net cost to you.)

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Throughout the year we keep a complete record of each transaction as you follow our advice. At the end of your annual enrollment you receive our audit of the progress of your account showing just how it has grown in value and the amounts of income it has produced for you.

To investors with $40,000 or more we shall be glad to send full information on Investment Management Service. Our annual fee is based on the current value of the securities and cash to be supervised—so if you will tell us the present worth of your holdings or list them for our evaluation—we shall quote an exact fee—and answer any questions as to how our counsel can benefit you.

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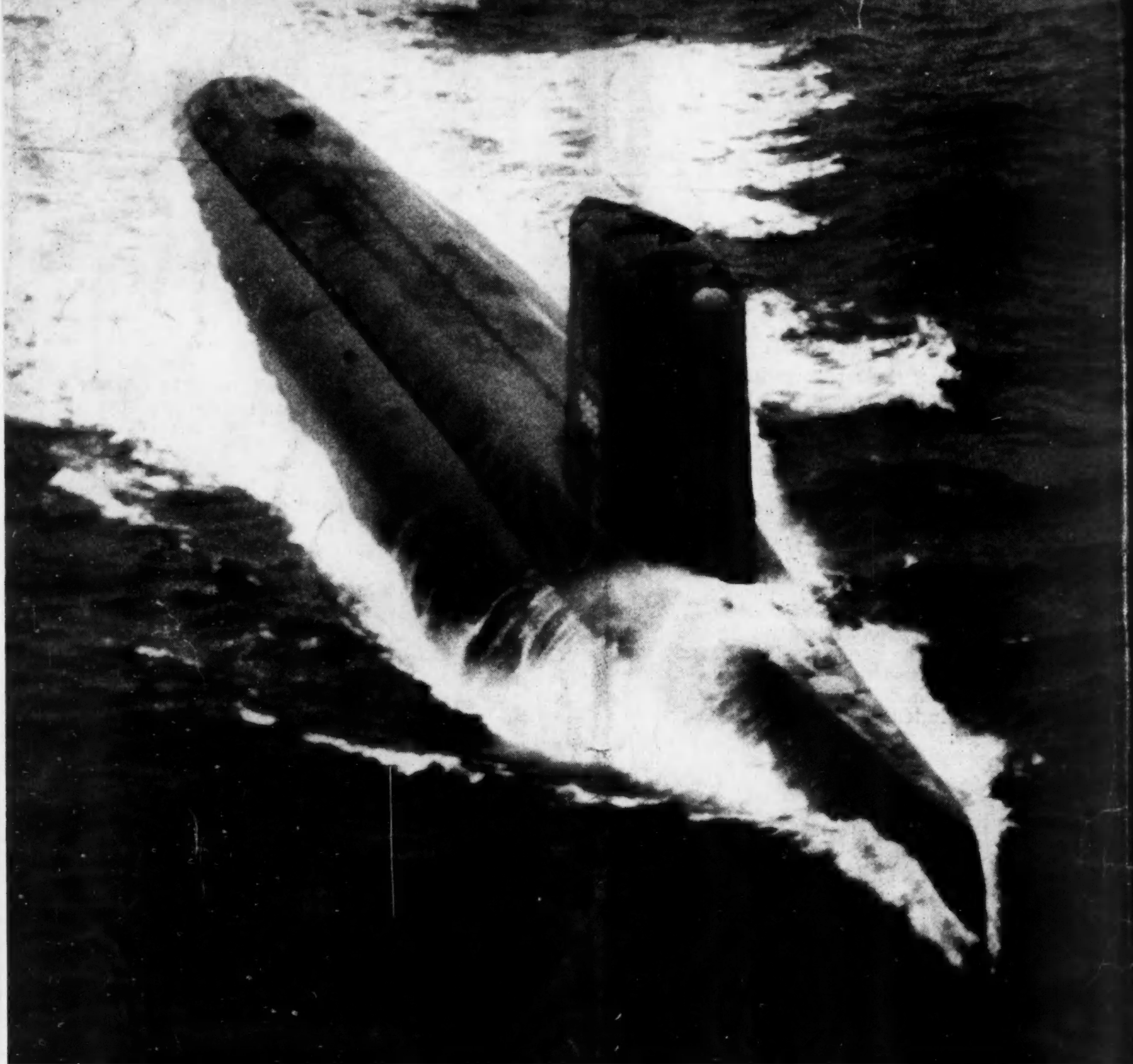

Official U. S. Navy Photograph

Power for a fighting fish . . .

The atomic submarine *U. S. S. Triton*, whose underwater global voyage recently made naval history, is equipped with Anaconda nuclear reactor cable which provides for the critical functions of power supply, position indication and temperature control. Developed in cooperation with United States Navy engineers, similar cable serves aboard all of the nuclear submarines thus far built in this country. In addition, uranium serves as the life-power of these man-made fishes—power enough to propel the *Triton* approximately 60,000 miles without refueling! Today, Anaconda is the nation's largest producer of uranium oxide concentrate, from which this super-fuel is made.

But nuclear energy has *other* vitally important applications, notably for peaceful purposes. Uranium concentrate, product of Anaconda's uranium ore-processing, is compressed into tiny ceramic pellets, each not much larger than an aspirin tablet. The energy from one such pellet could run a TV set for almost a year. Two dozen would furnish as much electricity as an average home would use in *three* years. And it's happening now! At Shippingport, Pennsylvania, the Duquesne Light Company's remarkable power generating plant utilizes a million of these pellets in a pace-setting operation which creates a bright pattern for the future. In the meantime, uranium makes life safer for most of us through radioisotopes which contribute much towards better products, better health, and which may help to provide better food.

Through its millions of tons of uranium ore reserves, through new copper sources such as the new El Salvador Mine in Chile, and through constant product research and development, Anaconda serves the nation in peace—and in the pursuit of peace.

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